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CONTENTS

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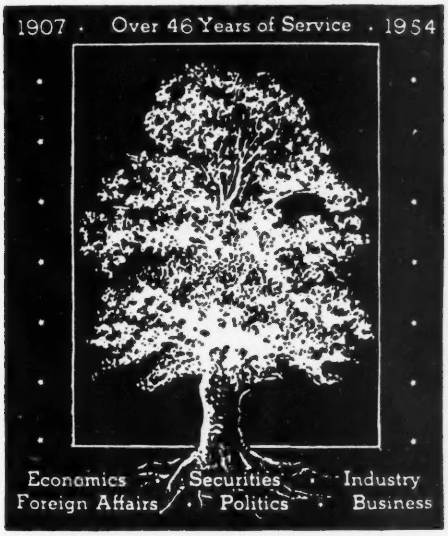
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

AN EARLY TEST . . . No doubt, in coming months, there will be a good deal of Congressional opposition both in and out of the President's party, to various phases of his program. Party lines will be crossed and it may be difficult, at times, for the Chief Executive to see where his support is coming from. Probably the greatest immediate test of Mr. Eisenhower's leadership will be the Bricker amendment for this has its largest support among many of the most influential leaders of the President's own party. As it will come up for vote quite early in the current session, its fate is apt to have a profound effect on the success of the Administration's legislative program. Unless the President can manage to summon up enough support to defeat this amendment, which involves the constitutional power of the Executive branch of the government, the strength of his leadership may be disputed and he may consequently have trouble in getting some of his important recommendations adopted.

The President, thus far, has taken the more difficult course of pressing his program home without much regard to political considerations. This is a bold undertaking in an election year. Yet it may prove politically the wisest plan provided he continues to speak, as he has been doing, directly to the people. Congress will do what it thinks the people wants. If the people indicate that they approve the President's recommendations, his chances for success with Congress will improve substantially, but, first, he must show that he is prepared to deal forcefully with the law-making body. He has potent means at hand to accomplish this purpose. Above all, he possesses the priceless asset of widespread public eteem and admiration. Further, he has laid out a course which is generally considered sound and far-sighted. Confidence in himself and in the trust which the people have in him should give him the necessary strength to maintain effective leadership, despite the obvious obstacles.

HERALD OF A NEW AGE . . . On Thursday of this week, the Nautilus, first atomic-powered vessel in history, will be launched at New London. A spectacular naval accomplishment, it is a symbol of immense potential importance to the security of the United States. But even this is transcended by its significance as one of the first great events ushering in a new era of atomic power for universal rather than exclusively military use.

Many have thought that widespread application of atomic power to industrial use would not be possible for at least another generation. The speed with which the idea of the Nautilus was conceived by naval engineers and atomic scientists and brought into concrete being shows that we must readjust our vision of the future and prepare, much sooner than anticipated, for the atomic age.

The President has already (*Please turn to page* 536)

We recommend to the attention of our readers the analytical discussion of busi- readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

The Right Kind of Tax Relief

The House Ways and Means Committee is now at work formulating a new tax bill. In belated recognition that many classes of citizens are unfairly penalized by some existing tax provisions, it is advocating certain measures of relief. Of particular importance to investors is the fact that this Committee has within the last few days taken a definitive step to partially eliminate the inequitable "double taxation of dividends."

1. Elimination of "Double Taxation"

Under our present laws and those which have been in effect since the inception of the Income Tax Law, investors are subject to a double tax—one, a direct income tax on dividends received, and the other an indirect tax on their proportionate share of the company's profits. Thus, the government effects a double squeeze—once, on the company itself and, again, after these corporate taxes have already been paid, on individual dividend income.

Not only is the investor unfairly penalized through double taxation on dividends and investment, therefore, made less attractive, but the corporations are also placed in a difficult position since it restricts their ability to secure new capital through common stock issues. To alleviate this situation, the Committee has adopted a proposal to grant relief through a three-year program of stepped-up reductions in taxes on dividends.

2. Capital Gains Tax

This uneconomic and essentially inequitable tax has been the source of a great deal of mischief among investors, has had an enormous effect on the securities markets and has distorted the standards by which investors must make vital decisions. The capital gains tax originally was imposed as a political measure to penalize the "rich" and to limit speculation in days when the Stock Exchange was considered a den of iniquity. Actually, it has been a burden on all classes of investors and speculators alike.

Even from the government's point of view, it is doubtful if the returns brought into the Treasury through the capital gains tax have been sufficient to warrant its retention. While precise figures on these returns are not available, it is considered doubtful that the capital gains tax produces much more for the Treasury, on the average, than several hundred million dollars annually. This is a trivial amount compared with the $21.5 billion paid by corporations in the fiscal year ended June 30, 1953 and the $37.2 billion received in the same period from personal income taxes. According to these figures, the entire capital gains tax could be eliminated without affecting total government receipts, except to a very minor extent.

Furthermore, abolition of the capital gains tax penalty would unquestionably encourage investors who have been reluctant to sell long-term holdings purchased at materially lower prices owing to the large tax involved, to dispose of such securities and thus add to the liquidity of the market. It is worth noting that the capital gains tax doesn't exist in Great Britain and Canada which have long recognized the distinction between capital and income.

If this inequitable tax cannot be abolished forthwith, it is at least urged upon Congress that three steps with respect to existing provisions be taken to improve the status of investors. First, the waiting period should be reduced from six to three months; second, the rate should be reduced from the present 25% to the former 12½%; and third, the loss carryover provision should be liberalized.

We believe these improvements to the existing statutes would not only widen the scope of the securities markets but, in the long run, bring in greater revenue to the Treasury than under present conditions.

3. Depreciation Charges

For many years, business and industry has had the legitimate complaint against Treasury rulings that they were unable to charge off enough to depreciation to permit replacement of plant and equipment without loss during a period of rising prices. The House and Ways Committee is now considering a proposal whereby two-thirds of the cost of new construction could be charged off during the first five years of existence. This would extend to ordinary business and industry the same tax privileges permitted under the accelerated amortization plan under which new defense plants are built. Liberalization of existing provisions would undoubtedly spur new construction and facilitate the replacement of old equipment with new.

We believe the various improvements suggested in the above are needed, particularly in this period of economic adjustment. We believe that any loss in revenue to the government that came about as a result of a more liberal policy in tax regulation would be more than compensated for in future years. Accordingly, we urge our readers to write to their Congressmen and Senators in support of the measures advocated as a logical step in freeing the economy from unnecessary shackles.

As I See It!

By E. D. KING

THREE WEAK POINTS IN THE DEFENSE SYSTEM

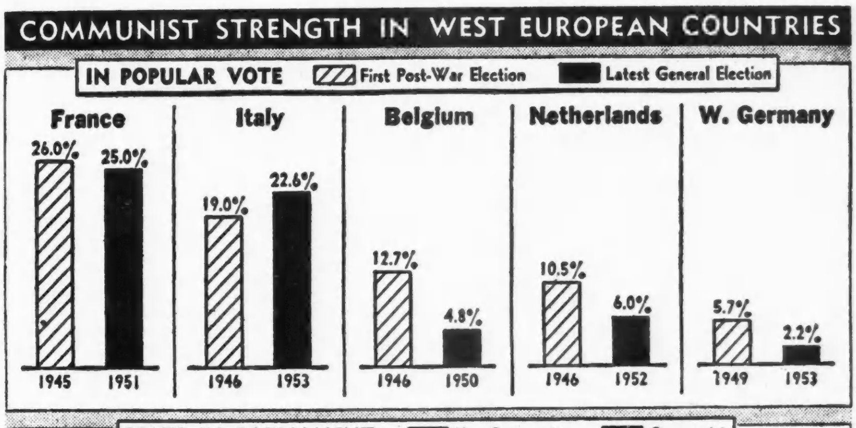
After years of unremitting effort and expense in developing a sound defense system in Europe against the Soviets, we now find the underpinnings of this structure menaced because two of its supports, France and Italy, are subject to increasing Communist-leftwing pressure, and the third, Yugoslavia, may some day embrace neutralism, if it does not indeed eventually revert to its old-time alliance with Moscow.

Each of these countries represents a vital link in the over-all defense of Free Europe. France is a cornerstone of the military alliance in Western Europe; Italy is vital in the defense of the Mediterranean; and without Yugoslavia firmly tied to our mutual system of defense, Greece and Turkey are outflanked. In such a position, the dependability of the three nations is of paramount importance to the United States. What is the actual situation?

In France, we find hopeless confusion. The stand-by Laniel government has no real authority and the new Premier, whoever he may be, probably will not have more. The Communist party, realizing that the old Stalinist line was out-dated, has been craftily laying the groundwork for a new Front Populaire, that old friend of neutralism. Already, there is talk of revitalizing the Soviet-French mutual aggression pact which is still technically in force. Friendly gestures have been recently made to Moscow in which not only leftist leaders but even some conservatives have joined. One must not ignore the fact that there is a strong tradition of friendship between France and Russia. Finally, the French people, as a whole, want to free themselves of the Indo-China war, though they are quite aware that this would affect our strategy in Asia. In all likelihood, unless we ourselves took up the fight, this could go far toward nullifying the effects of our resistance to communist aggression in Korea. It is obvious that withdrawal of the French from Indo-China, before we are able to build a viable defense structure in what is left of Free Asia, could open the way for an inundation of Southwest Asia by the communists, with results that would be catastrophic to the cause of the free world.

So France is one weak point in our defense system. Italy is another. There is no longer a stable government there and the communists are steadily gaining. It is not surprising that recent political developments in Italy have caused acute disquiet in our State Department. Furthermore, it must not be forgotten that the strategic strength of the Italian Communist party is not limited solely to its own membership but is increased through its strong ties with Nenni's extreme left-wing party. It is now by no means inconceivable that if national elections were called, the Communist party, together with its ally, could take over. One has only to think of the crucial part that Italian naval bases play in the Mediterranean strategy of the Western alliance to see how this would imperil our dominance of the sea route between Gibraltar and the Suez.

In Yugoslavia, the third weak point, there are signs of a resumption of normal relations between that country and Moscow. Tito, himself, may still be anti-Soviet but many of his associates, strongly-indoctrinated communists, look back with longing to their old relationship with the (*Please turn to page 536*)



Together with other left-wing elements, Communists show ominous parliamentary gains in Italy and France, the latter especially. The chart shows the French situation at the end of 1951, but new gains in Communist strength since should be allowed for. (Reproduced from N. Y. Times and based on Manchester Guardian survey.)

Market Weighs New Earnings Prospects

Selective recovery tendencies in stock prices went further over the last fortnight, with the market currently paying more heed to tax considerations, money-rate factors and the prospect of generally satisfactory dividend maintenance than to business recession. Sustained broad advance remains unlikely. There is no change in our conservative policy.

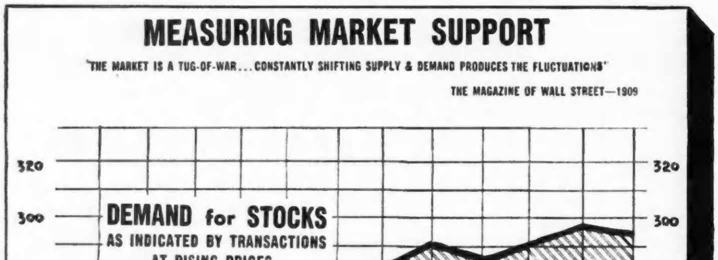
By A. T. MILLER

On the whole, despite many cross currents within the market, investors remain more willing to hold or buy stocks than to sell. The reduction in personal income tax rates, and the slight cut in the maximum levy on long-term capital gains, effective at the start of this year, have so far induced relatively little profit taking in stocks which have risen since last September. Where these are prominent and good-grade stocks, as is mostly so, institutional buying has imparted fresh strength in some instances; and in others has offset profit taking by individual investors.

Although the emphasis is still heavily on quality and special-situation profit opportunities, some of the depressed stock groups have had further technical rallies, resulting from cessation of the November-December tax selling, even though at a reduced pace as compared with the first few trading sessions after the turn of the year. Examples include farm machinery, coal, soft drinks, gold mining, apparel chains and sugar.

Recent Market Pattern

Among the relatively advanced stock groups, large profits are available in aircrafts, electrical equipments, some chemicals, small-loan issues, packaged foods, food stores, dairy products, paper stocks and tire stocks among others; but they are not yet being cashed in on any important scale.



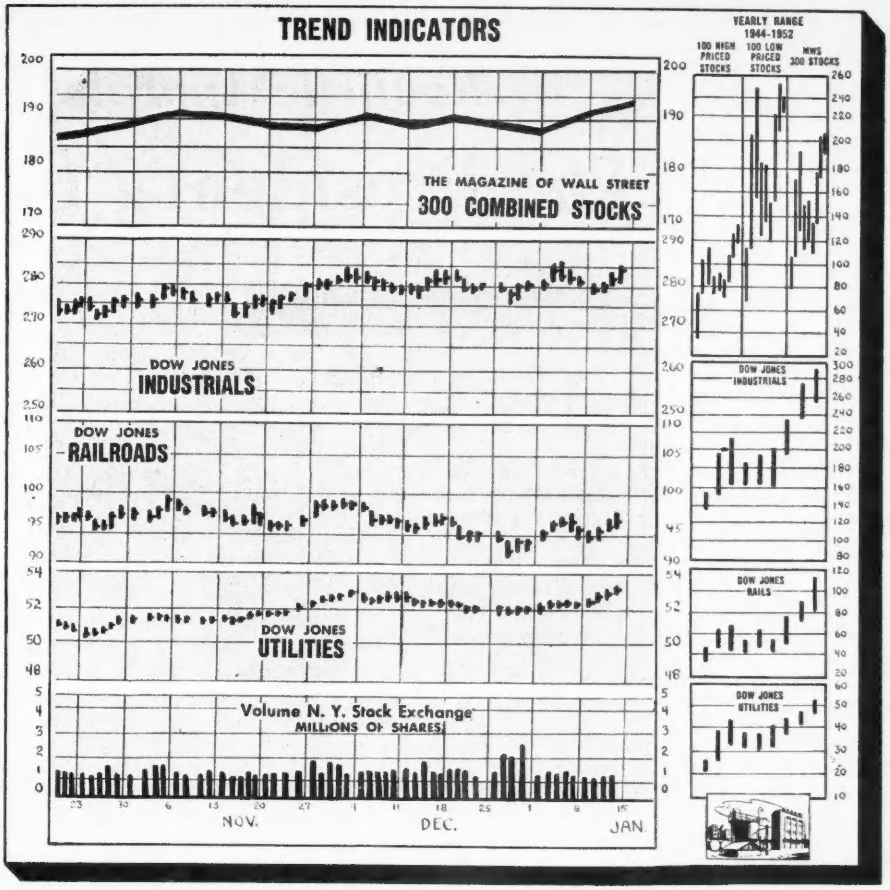
The pattern of the market so far in 1954 has been (1) strength in the initial trading sessions, taking the Dow industrial average, but not rails or utilities, a shade above its best December level, thereby slightly extending the post-September recovery swing; (2) a sizable three-session dip on which support was quickly met; and (3) renewed strength which gained in vigor late last week, following news that the House Ways and Means Committee had approved, on Administration recommendation, a schedule of tax credits for dividend income, to be effective next August 1, amounting to 5% in the first year, 10% in the second and 15% for the third and all subsequent years, plus blanket exemptions which are $50 in the first year and $100 thereafter for single returns and double these figures for joint returns where both spouses have dividend income.

Assuming adoption by Congress, this could be a stimulating investment factor of considerable importance, as more specifically detailed elsewhere in this issue. (See For Profit and Income.) As a result, demand for stocks, particularly in the case of better-grade dividend payers, broadened substantially in last Friday's trading session, and improvement was maintained up to our Monday press-closing time this week.

It lifted the Dow industrial average, as of the close of last week, to 286.72, a level only some 7 points under the bull-

market high recorded early in January, 1953, and about 31 points over the low of last September. It left the rail average a fraction under its rally high of early December, over 14 points under its bull-market high of late 1952, and less than 8 points above its September low. The Dow utility average, which set a bull-market high of 53.88 last March and fell to a low of 47.87 in June, edged up to within a small fraction of the March high. This average includes some gas pipe line stocks. Electric power stocks, on an over-all basis, are at a new post-war high.

It cannot be over-emphasized that this is a "market of stocks." There are bull markets in electric utilities and a minority of high-grade industrials, including some income stocks and some growth stocks. Institutional money is going largely into income stocks, which are favored by current strength in the bond market and prospects that long-term interest rates are more likely to remain easy or ease further in the course of 1954 than to rise, and into selected growth stocks. Accumulating pension funds are going into stocks at a rate of probably something over $300 million a year. This is not large relative to total stock transactions; but it is concentrated in a minority of stocks, taking more and more shares out of the market. It is important at least for the minority of stocks meeting trust requirements. Mutual funds also are still buyers, on balance.



The great majority of individual industrial and rail stocks are in a bear market, or a trading-swing market or a do-nothing market—certainly they show no indication of significant advancing tendencies. For that matter, the pattern of the Dow industrial and rails averages, if not dynamically bearish, has been non-bullish for over a year. Despite the current cheerful tone of the market, it remains to be proven that the upswing of recent months is anything more than an intermediate recovery, whether figured in terms of the Dow industrials and rails or our broader weekly indexes. The Dow averages are working into an area of formidable supply. Unless the major highs made over a year ago are to be surpassed—a dubious proposition—there is more leeway now on the down side than the reverse.

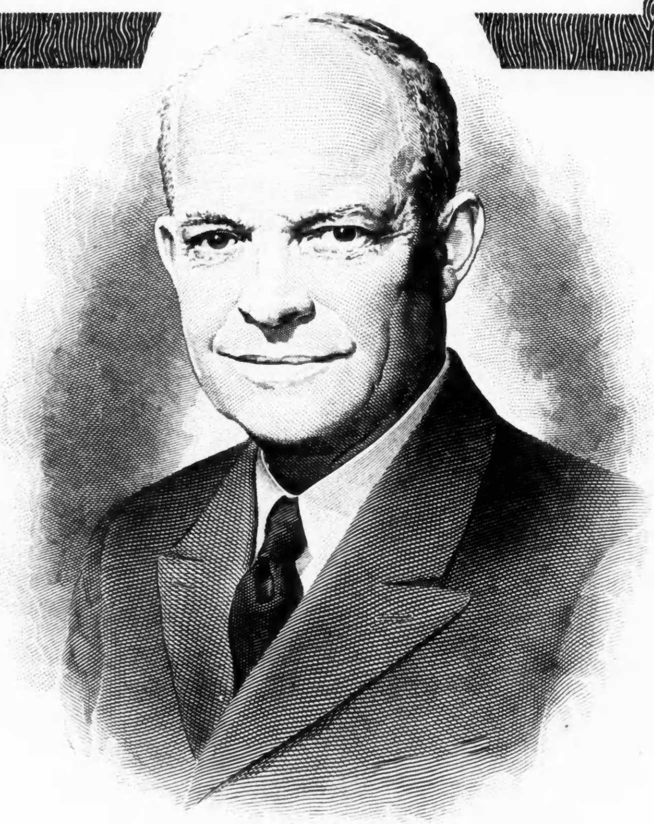
Institutional demand cannot prevent at least trading-range downswings in average stocks prices —or even in so-called "institutional stocks". Note the swings over the past year or so, for instance, in General Electric, National Lead, du Pont, Shell Oil or other typical favorites of institutional buyers. Note also that the spread between demand and supply, as shown on the chart on the opposite page, is so uncommonly wide on the favorable side that it is unlikely to remain that way very long. As judged by past behavior of this technical indicator, a sell-off of some proportions may be in the making.

The Principal Influences

The main factor on the restraining side is expectation of at least a moderate recession in business activity and corporate earnings this year. Unless it is more than moderate, adequate allowance for it may have been made by the nine-month market adjustment into last September—but what it actually will amount to is guesswork at this stage. A less favorable economic climate—what the President has called a transition from a wartime to a peacetime economy—has long been anticipated. It is substantially discounted by price-earnings ratios and dividend yields, the former medium-low on historical perspective, the latter medium-high. Constructive tax adjustments are on the supporting side. Also on the supporting side, as heretofore noted, is downward pressure on money rates and the promise that dividends, on average, will hold up better than business or earnings. Although the relationship is far from precise, it is a fact that over the years the market has had a closer correlation with annual change in total dividends, (*Please turn to page* 536)

..Realistic Appraisal of..

The President's Program



By HAROLD DuBOIS

(Editor's Note: This is the first part of an analysis and appraisal of President Eisenhower's major economic recommendations to Congress, and covers the State of the Union Message. In the next installment, we will deal with two of the most important of succeeding messages, namely, the Budget and Economic Report.)

President Eisenhower's State of the Union Message may be likened to an architect's plans submitted to the public for acceptance, revision or rejection, with Congress acting as agent of the people.

It is a paper of significance. Congress has come to expect Chief Executives to speak in pleasant generalities, declare for good, decry evil, step on no toes. This year the President went beyond performance of a constitutional duty, delivered a political and economic message in confident word and voice, put it squarely up to congress to act wisely or explain its failure.

Except for a few words of compliment to achievements by this Administration, it was almost wholly non-political, carried no harsh criticisms, but pointed out that improvements have come about, made it clear that Ike believes the same course of action can produce even more.

In his Message, the President profoundly indicated his awareness that the country looks to him to expound a valid political and economic leadership that must inevitably have massive effects on the nation for years to come. As such, it was one of the most important State papers in years for it coincides with a great turning point in American affairs, both internationally and on the domestic front, and clearly disclses the nature of the coming transition from war to peace. This will remain true regardless of the fate of individual proposals.

With many major problems deserving separate messages it was obvious that not all subjects discussed in the first appearance could be written with fine-pointed pen. Some came out in brush strokes.

Take the explosive subject of labor, the cause of the only huffy resignation from the Ike cabinet. Social Security extension, long talked about and detailed, came in for repeat treatment. But on the Taft-Hartley Act, there was only this:

"The Labor Management Relations Act of 1947 is basically a sound law. However, six years of experience have revealed that in some respects it can be improved. On January 11, I shall forward to the congress suggestions for changes designed to reinforce *the basic objectives* of the Act."

But there were sturdy grips to cling to at other points: based military forces at Okinawa indefinitely, which seemed to answer the charges that we are pulling out of Korea; a NATO (North Atlantic Treaty Organization) kept strong, which was tantamount to saying we must spend or relax the initiative against communism which the President said now exists; development of atomic power for defense, without losing sight of the warlike potential and the need for preparedness in that department—again, an apparent answer to the question whether we might be dropping our guard too hastily in dealing with other countries; a flat declaration in favor of the St. Lawrence Waterway program, for the security and economic benefits that will flow to this

country and the maintenance of historical friendship with Canada—taking a position on a much controverted subject, meeting it head-on; stronger emphasis on navy and air force spending, with lessening of dependence on the army, an objective which is calculated to line up for battle the political and lobbying strength of all three arms; one billion dollars more in fiscal 1954 than in fiscal 1953 for continental defense measures, coming at a time when the pro and con on defense spending is a small war in itself; frank admission that piercing the national debt ceiling is the alternative to ignoring payments which must be made—a statement that may cost the President sorely needed backing on Capitol Hill, especially among the southern democrats who look to Senator Harry F. Byrd of Virginia, to call the voting signals; thumbs down on nationalized medicine, but with federally-supported research programs continued and expanded, and with government reinsurance within currently un-defined latitude for private health insurance programs.

The above is only a summation of part of the 12-page mimeographed report to which congress listened.

That is not to say that there were no passages which will be party-line challenged. To find that the Korean situation is in hand is, at least, to emphasize the brighter side; the flat assertion that the economic picture has improved in the past year will call for the amplification it later will get, in the light of the recent meetings here at which 300 economists agreed the country is in a recession, disagreed only as to its extent; the seemingly everlasting argument about who was fired for what, is re-kindled by the President's assertion that 2,200 persons have been "separated" from the federal payroll under the security program—no breakdown among commies, fellow travelers, deviates, plain drunks, etc.; the call for a sound natural resources program is principally a repeat in thought, if not in precise language, of a long parade of State of the Union messages which preceded; continued federal-aid for highway construction, preserves the status; call for higher postal rates is a perennial; announcement of a hoped-for national conference on school problems will be labeled a postponement by many who won't have the answer to what alternative there is; citizenship for Hawaii, and a minimum voting age of 18, have their backers and their values, no doubt, but they were properly placed near the end of the message.

Yet it will be referred to often. Business and political groups will compare segmented parts of the Eisenhower program as it unfolds with the blueprint bearing the date of Jan. 7, 1954. It will determine, to the satisfaction of many, whether the White House is still strong or is wavering; whether the goals and the methods are being kept in sight. Earlier messages were expressions of hope; this was a clear plan, backed by some of the specifications.

Early evaluations in congressmen's press statements—both parties—can be treated with a yawn. Most of them were drawn in advance of delivery of the report, expressed preconceived notions.

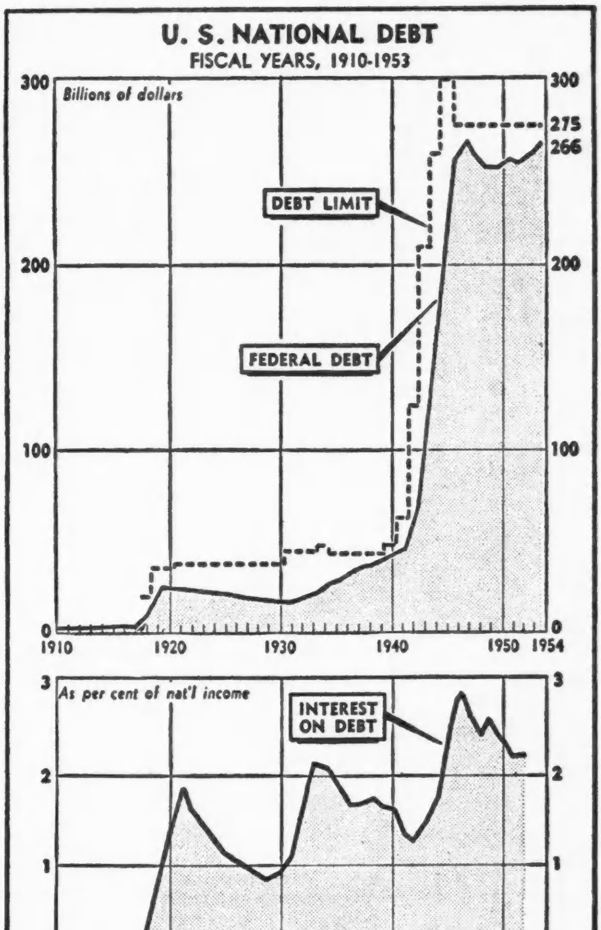
Republican leaders in congress had a large part in casting the document. They knew what to expect; not all of them were in agreement on all points, but none of them disagreed with all of it during the White House conferences last month.

Democrats fumed at the fact their leaders were invited in only after the message was in print, given the chance to vote "aye" or not vote at all. They chose the latter course. But none could recall when a President of their own party had called republican leaders in to preview, criticize if they willed. Even get a headstart on partisan opposition, if so inclined.

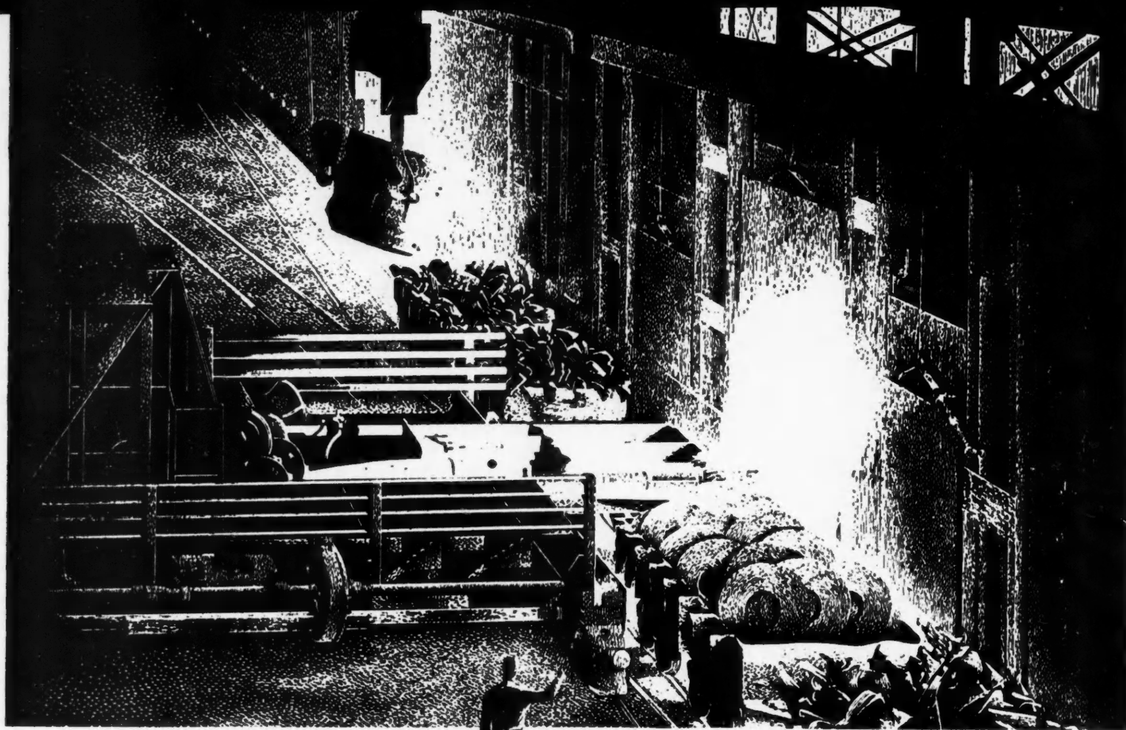
President Speaks to Nation

No clairvoyant powers are needed to uncover the fact that the President was not interested solely in telling his story to the lawmakers, republicans and democrats alike. Read and re-read, the message brings this into focus: Ike was going to the Nation! It was written and delivered in a manner best designed to go beyond the physically assembled audience and reach those who would read, hear, and see, through the printed word and the marvels of communications.

The President had heard murmurings grow into rumblings and even reach the point of threat. He was on notice that things could be better on the legislative side; he knew his foes were entrenched against the foot soldiers of his stalwarts. He needed the voice of the people to (*Please turn to page* 528)



National Industrial Conference Board, sources: Treasury Department, Department of Commerce



★1954★ Prospects for Leading Industries

PART II **By GEORGE W. MATHIS**

In the first section of this review and forecast of business and industrial conditions, we commented on changes taking place in three basic components in the national economy, viz: government expenditures, capital investment and consumer buying. In this section, we will discuss these figures in somewhat greater detail insofar as they are likely to influence the volume of business in 1954.

(1) *Government spending.* On a calendar year basis, it is estimated that the government cash outlay for 1954 will be approximately $71.5 billion, compared with $78 billion in 1953. This is a cut of about $6.5 billion and will mainly come out of military hardware and maintenance of defense personnel. Owing to the presumptive changes in the defense department program, it is likely that cuts will be felt by manufacturers of the heavier ordnance types, such as tanks, heavy tractors and similar high-cost equipment with preference given to aircraft and electronics manufacture. To this must be added full maintenance of the atomic program. Subsidiary but important is the prospect for virtual ending of accelerated amortization for new defense plants.

It is more likely that these cuts in cash outlay for defense material will be felt in the second half of the year than in the first half as many phases of armaments manufacture await completion during this period. Industries that are directly involved are steel, machinery and machine tools, and nonferrous metals, all of which face lessened demand from government stimulated projects.

To gain a better perspective on the effects of the over-all cut in government cash expenditures for 1954, it is necessary to compare these projected totals with those of previous years. The approximate figures are as follows: for 1954 (est.), $71.5 billion; 1953, $78 billion; 1952, $73 billion; 1951, $58 billion, and 1950, $42 billion. It will be seen that the anticipated total for 1954 is still impressive, compared with all years but 1953 and, in fact, is on almost a par with 1952, a very big year in government spending.

Taken by itself, the coming cut in government outlays, while substantial, is not entirely conclusive as indicating the major trend for business during the coming year. This must be considered in connection with the other two major facets of the economy-capital expenditures by private industry, and total consumer buying—in order to obtain a valid estimate of the impact of the trend of these combined factors on the total economy.

(2) *Capital expenditures.* A decline of moderately over $1 to $2 billion in expenditures for plant improvement, including new facilities and equipment and modernization of older plants is anticipated for 1954. This would bring the total down below an annual rate of $27 billion, compared with $28 billion in 1953. This figure is still well in excess of the $26.4 billion for 1952 and $25.6 billion in

1951. Apparently, forward plans for capital investment by business and industry have not been affected substantially as yet by prospects for a downturn in sales though this may change later. Public utility construction in the first quarter of 1954 is expected to exceed that of the final quarter of 1953, with an annual rate of $4.5 billion against an annual rate of $4.3 billion. Modest downturns in expenditures for new plant and equipment are expected for both manufacturing, mining and railroads. On the other hand, commercial construction should be maintained for some months at peak 1953 levels with an estimated annual rate during the first quarter of next year at slightly under $8 billion.

It can be seen that the anticipated decline in government spending will probably not have a comparable effect on private capital investment, as a whole, and, in fact, that the generally high maintenance of this factor will tend to overcome though it will not entirely compensate for the loss to industry by the drop in government cash outlays during the year.

(3) *Consumer Buying.* It is in this area that considerable uncertainty exists. Owing to the usual delay in publication of government data on personal consumption expenditures, it is impossible to give an accurate picture of the current trend. Second and third quarter consumption figures were relatively static at $230-$231 billion but from various trade and industry reports, it is indicated that a decline took place in the final quarter. Supporting this estimate, is the increase in the percentage of net savings to disposable income which has now reached the highest level for some years, with the exception of the third and fourth quarters of 1952. This would tend to show a more conservative general buying attitude, which is confirmed by conditions in the automobile, appliance and clothing industry. Only food and service expenditures are being maintained at peak levels.

Consumption levels are affected by employment and wage totals. From recent indications, a definite trend toward lower employment has set in, albeit on a still comparatively moderate scale. Furthermore, pressure from retailers on manufacturers for lower prices is in direct response to the obvious fact that retail prices cannot any longer be safely increased without meeting consumer resistance.

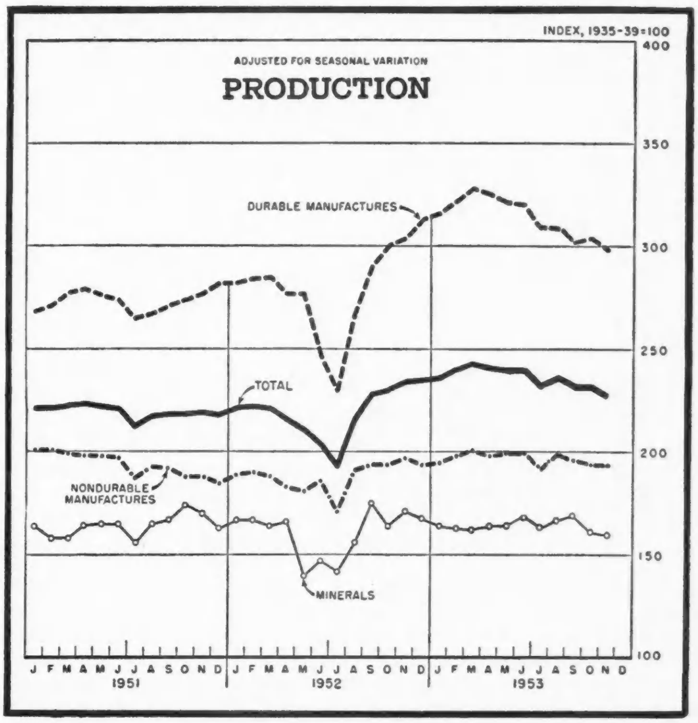
In conclusion it would seem that the three major factors of the economy—government spending and consumer buying—in varying degree are tending downwards. Some of the decline in the federal government cash outlay will probably be offset by an increase in state and local government spending, but there will be a net loss in total public spending. With private capital expenditures comparatively well-sustained, the real question mark is the future volume of personal expenditures. These will probably show a moderate decline from peak 1953 levels. It is anticipated that the gross national product of $367 billion in 1953 will decline to possibly as low as $350 billion. This would roughly approximate the $348 billion in 1952 and would be substantially ahead of the $329 billion in 1951. Probably, the size of the anticipated downturn in business in 1954 may be measured against these figures.

In the first section of this review, we covered basic industries such as railroads, public utilities, steel and automobile. In this section, we cover such important industries as textile, paper equipment and miscellaneous groups.

RAILROAD EQUIPMENT—In early 1954, expenditures on equipment by railroads are running at the lowest level since Korea, fully 10% below expenditures in the early part of 1953. The outlook is for a further decline in orders and deliveries of rail equipment as 1954 progresses.

Shipments of freight cars by equipment manufacturers (as opposed to production in captive shops of railroads) ran at about 5,000 per month in the last half of 1953. This level is considerably below earlier expectations, and also well below the rate of shipments which had been considered necessary by the ICC only eighteen months ago. Unfilled orders for freight cars dwindled rapidly during 1953, and by year-end stood at a level roughly half the level at the beginning of the year. Unfilled orders for diesel locomotives had likewise shrunk, and backlogs for steam locomotives were virtually non-existent.

Demand for locomotives and rolling stock is now almost at a standstill, as a result of the sharp decline in freight traffic in recent months. Throughout the fourth quarter of 1953 freight car shortage reports were running at about one-third the level of late 1952. Carloadings were off as much as 10% from a year ago, while the number of serviceable cars was considerably higher. Demand for rail, and other maintenance-of-way items such as signal equipment, has continued much stronger than the demand for rolling stock, but it would not be surprising to find this demand easing in early 1954, as long as rail-



road income continues at its currently lower level. The great reduction in long-haul freight shipments of goods destined for Korea, and the reduction in shipments associated with inventory liquidation in many heavy industries, has resulted in an excess of rail haulage capacity over current needs (witness recent sizable layoffs among both operating and maintenance personnel of leading roads).

Earnings of companies producing railroad rolling stock are notoriously cyclical, and reports for the last half of 1953, which are not yet available, are unlikely to be very good. Except for the special producers in the field (such as Bethlehem Steel, which manufactures a considerable amount of way equipment directly for roads) equipment manufacturers were out of the excess profits bracket by late 1953, and will benefit little or not at all from the expiration of the tax.

FARM EQUIPMENT—Manufacturers of farm equipment saw their markets shrink rather considerably in 1953, owing to (1) deterioration in the earnings position of the farmer, (2) a natural reaction to the farm machinery boom that has been in progress ever since the war, and (3) allotment cutbacks incident to federal efforts to get the farm surplus situation under control. It seems probable, however, that farm equipment makers may have seen the worst of their adjustment, and that sales in 1954 will not be materially lower than in 1953. Members of the industry were deep in the excess profits bracket in 1952, and still well within it in 1953, partly because of a considerable volume of government subcontracting. A relatively stable sales level in 1954, combined with expiration of the excess profits tax, thus implies an earnings performance not materially below current levels. For some manufacturers, earnings may actually rise.

The striking thing about the market for agricultural machinery is the very high level of protection it is now afforded by farm support mechanisms, and by the continuing good *balance sheet* position of American agriculture. In 1953, for the first time in the postwar period, the net worth (assets less all debt, including real estate) of agriculture declined. But the decline was infinitesimal compared with the enormous growth of the postwar period. Farm debt is now negligible, in comparison with prewar years, and both the physical and financial assets of farmers are several times their prewar levels. Agricultural experts now estimate that if total farm income is about unchanged in 1954, net farm income and expenditures on farm machinery may be unchanged or a shade higher. Exports of agricultural machinery, while not expected to equal the boom postwar years of the Marshall plan, are not expected to subside below their 1953 level of about $160 million.

OFFICE EQUIPMENT—The outlook for the office equipment industry continues to be highly favorable, particularly for cost-saving accounting, recording and computing devices, and most particularly for card accounting systems now produced by virtually all the major office equipment manufacturers. Important factors affecting the industry in 1954 are (1) an apparently continuing high rate of business formation, which, at the close of 1953, was still running as much as ten times the rate of business failures; (2) intense incentive to reduce overhead costs as volume subsides somewhat from the hectic pace of 1953; (3) the highly liquid position of business, at the same time that expansion of *manufacturing* operations is no longer as imperative as it was in earlier years of the boom; (4) rapid technological improvement in the products of the industry, including more widespread adaptation of electronic techniques to industrial purposes.

Prices of office machinery were stable to slightly rising in 1953, and margins of the industry are characteristically wide. Most members of the industry (particularly the larger members who retain a large volume of electronic work for the defense effort) are heavily in the excess profits bracket, and expiration of the tax means a major enlargement of earnings potential. The industry's own capacity is still expanding rapidly and it may be considered a growth industry whose 1953 earnings appear more than assured in 1954. Increases in the industry's costs in 1954 (including an increase in its average steel costs for the year as a whole, and a probable increase in its labor costs and outlays for research) should be more than offset by expanding volume.

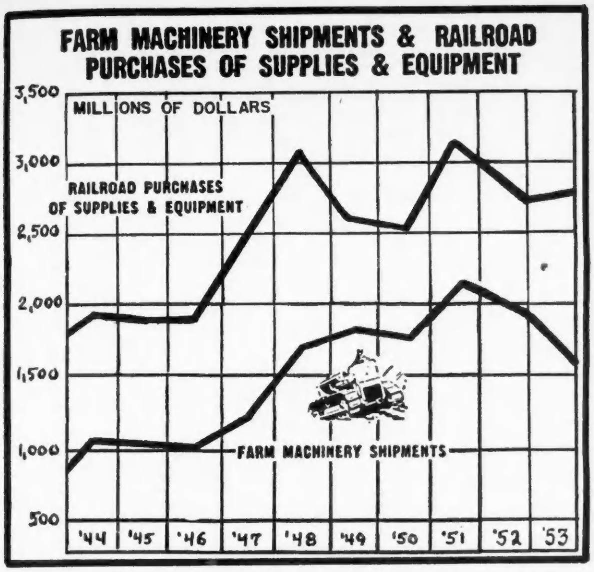
NONFERROUS METALS—The profits outlook for nonferrous metals companies in 1954 now appears to vary widely with the individual metals. For the two basic nonferrous metals, aluminum and copper, the outlook is for intense competition between the two, but, on the whole, comparatively satisfactory profits (although not equal to the substantial profits of 1953.) For other metals, the profits outlook is quite different.

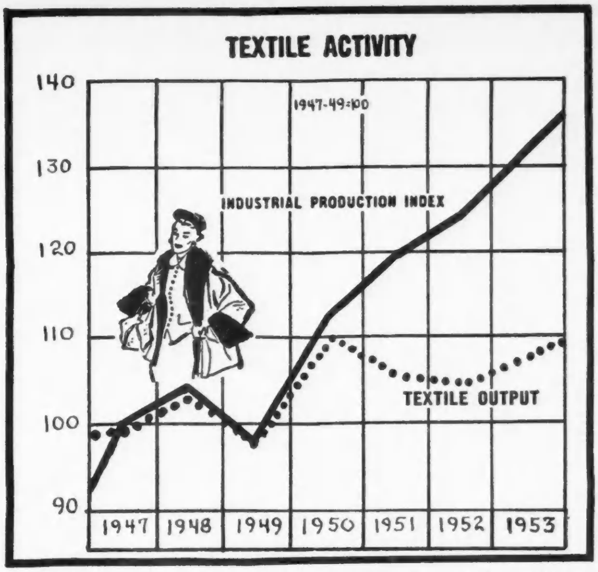
Domestic deliveries of refined copper in 1953 amounted to about 1.5 million short tons, very slightly in excess of the 1952 level. The better profits performance of copper companies in 1953 reflects, of course, the sharp rise in the base price of copper, from the 24.2 cents per pound of 1952 to the average of about 29.6 cents in 1953. Total copper production in 1954 is not expected to exceed 1953, and may fall somewhat short of the 1953 level. At the same time, despite the probability that the U.S. government will stand ready to absorb a part of any excess copper that may appear on the domestic market, copper experts are in agreement that the 29-30 cent range in copper prices is temporary, and that sometime during the year the price will move sharply downward—very possibly to below the price that prevailed in 1952. The Chilean government's recent expression of willingness to sell its copper at the prevailing U.S. price makes this the more likely.

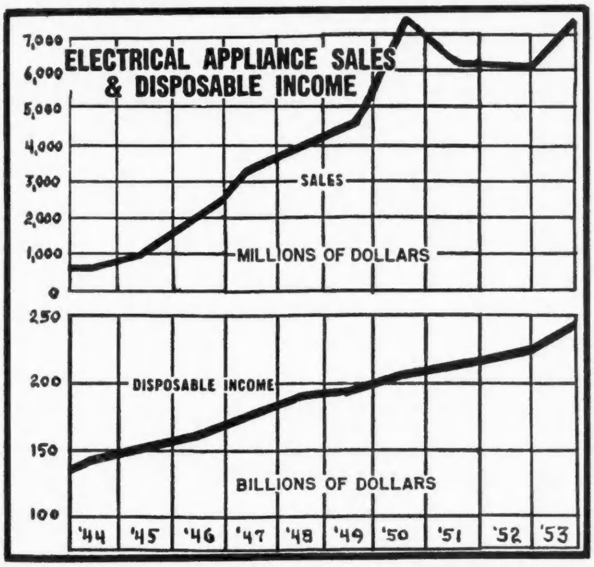
However, the rise in copper prices in 1953 left copper producers far in the excess profits bracket, and expiration of the tax will act as a substantial offset to the loss of income resulting from price reduction. Net earnings of copper companies are likely to lie somewhere midway between their 1952 and 1953 performances.

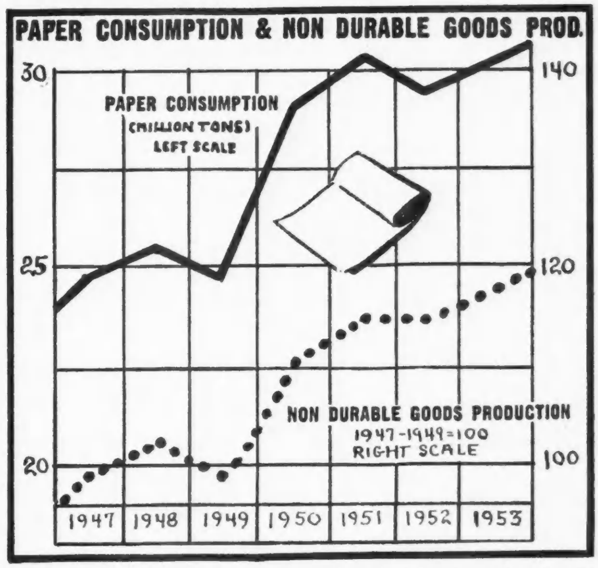
Aluminum companies continued to enjoy a substantial growth in total capacity and production in 1953, and their markets, aided by some of the most aggressive market research departments in America, have continued to expand, particularly in construction and communications products. Production rose from about 1.9 billion pounds in 1952 to about 2.5 billion in 1953, and capacity at the end of the year amounted to close to 2.8 billion pounds.

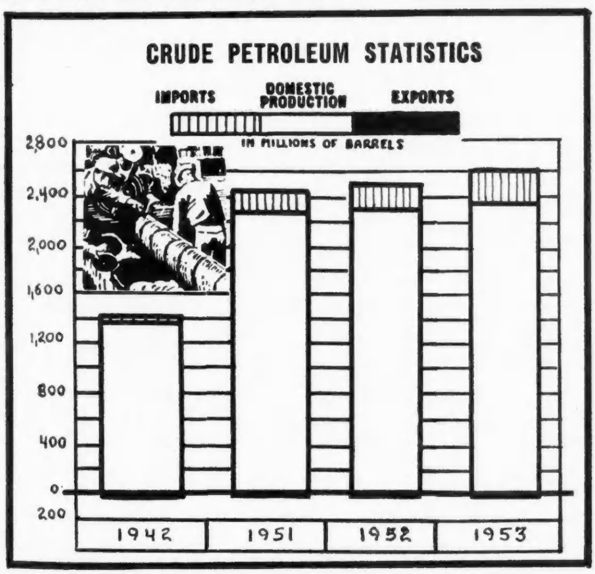
1954 is likely to witness a temporary halt to the growth of this industry, mainly because of its greatly increased capacity. It is also possible pressure on the aluminum price will (*Please turn to page* 522)

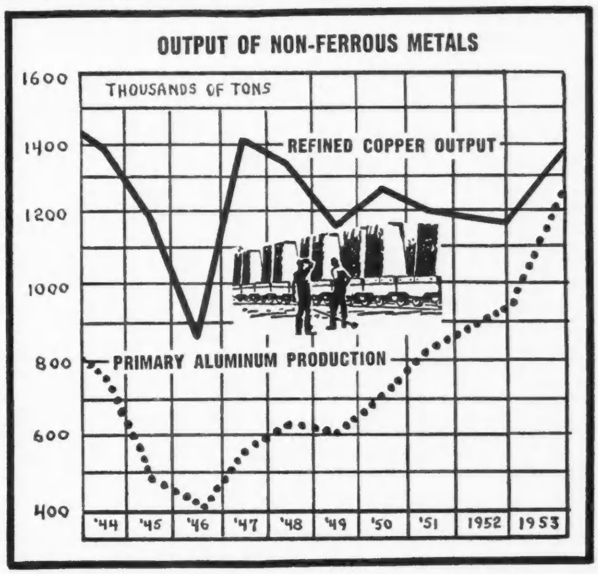

FARM MACHINERY SHIPMENTS & RAILROAD PURCHASES OF SUPPLIES & EQUIPMENT
MILLIONS OF DOLLARS
RAILROAD PURCHASES OF SUPPLIES & EQUIPMENT
FARM MACHINERY SHIPMENTS
3,500
3,000
2,500
2,000
1,500
1,000
500
'44 '45 '46 '47 '48 '49 '50 '51 '52 '53

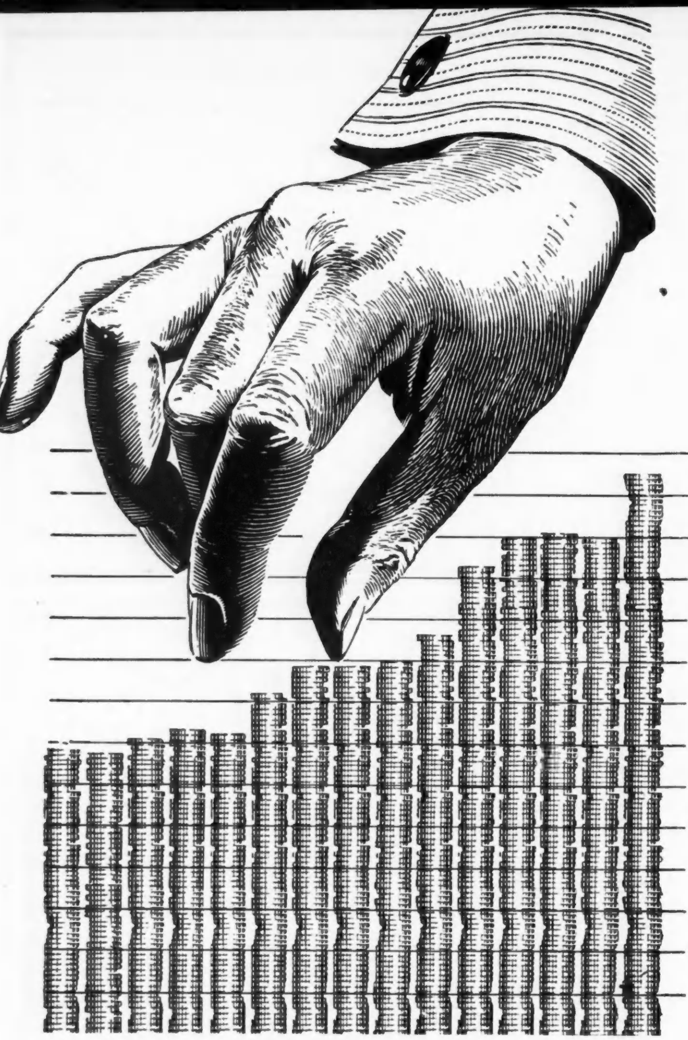

TEXTILE ACTIVITY
1947-49=100
INDUSTRIAL PRODUCTION INDEX
TEXTILE OUTPUT
140
130
120
110
100
90
1947 1948 1949 1950 1951 1952 1953


ELECTRICAL APPLIANCE SALES & DISPOSABLE INCOME
SALES
MILLIONS OF DOLLARS
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
DISPOSABLE INCOME
BILLIONS OF DOLLARS
250
200
150
100
'44 '45 '46 '47 '48 '49 '50 '51 '52 '53


PAPER CONSUMPTION & NON DURABLE GOODS PROD.
PAPER CONSUMPTION
(MILLION TONS)
LEFT SCALE
NON DURABLE GOODS PRODUCTION
1947-1949=100
RIGHT SCALE
30
25
20
140
120
100
1947 1948 1949 1950 1951 1952 1953


CRUDE PETROLEUM STATISTICS
IMPORTS
DOMESTIC PRODUCTION
EXPORTS
IN MILLIONS OF BARRELS
2800
2,400
2,000
1,600
1,200
800
400
0
200
1942 1951 1952 1953


OUTPUT OF NON-FERROUS METALS
THOUSANDS OF TONS
REFINED COPPER OUTPUT
PRIMARY ALUMINUM PRODUCTION
1600
1400
1200
1000
800
600
400
'44 '45 '46 '47 '48 '49 '50 '51 1952 1953



What is Needed to Make

LOW MONEY RATES WORK

By HOWARD NICHOLSON

Two thoughts agitate businessmen and investors to-day. First, accepting the viewpoint that a downturn has already started, they want to know how far it is likely to go if left to the normal workings of our economy. Second, they would like to know how far the government is prepared to go to arrest this possible trend and, especially, whether the credit mechanism available to regulate the scope of the adjustment will be used effectively. Perhaps the second question should be put as follows: can a downturn in business that could possibly develop into sizeable proportions actually be held in check by monetary controls?

In a recent statement that received worldwide publicity, Mr. Colin Clark, the eminent British economist, made the rather astonishing point—along with a gloomy interpretation of American prospects—that monetary stringency may not be as strong a factor in a business decline as is commonly supposed. If that premise is accepted, its corollary, that monetary ease would not be a powerful factor in raising the level of business activity, would also be valid. Yet we know that the government, if necessary, is preparing to exert the full force of its authority to make credit plentiful at low rates in the hope of stabilizing the economy.

The fact of the matter is that ease of monetary controls is required when conditions indicate that deflationary forces may be strongly in the ascendant. Last spring, the situation was reversed when the continuation of the inflationary trend held over from 1951-1952 and which had reached a high plateau, caused the Treasury and Federal Reserve Board to adopt a hard money policy. That the results were unfortunate was due not to the principle behind the act but poor timing, and, also, seeming unawareness of the possibility that the inflation indeed was on the verge of halting. That an error in judgment was made, soon after rectified by a reversal in policy, does not warrant the conclusion that future credit control may not prove effective as an element in resistance to negative forces in the economy.

Monetary Control vs. Fundamental Factors

Three factors are involved in the effectiveness of such control under the decisive basic economic conditions. The first of these is judgment as to the right time for relaxation of controls; the second, the volume of credit which, it is estimated, will effectively oil the economy when needed; and third, the availability of credit at low interest rates.

The combining of these factors, operating simultaneously, should tend to halt the rate of a downward turn in the economy, provided the totality of adverse factors is not too dominant. There are five such fundamentals that must be taken into consideration in any appraisal of the economic outlook. These are specified by Mr. Clark as follows:

1) Current output of producers' durable equipment in relation to output in past years.

2) New private construction in relation to past construction.

3) Net change in inventories in relation to current and past sales.

4) Personal consumption expenditures in relation to the previous high level of the gross national product.

5) Total sales in relation to government purchases of goods and services, exports, previous gross national product, past output of producers durable equipment and past output of private construction.

It is not the purpose of the writer to analyze each of these basic factors in detail. However, it is important to point out that the trend of one influences the trend of the other and that the cumulative force of the five moving simultaneously in one direction becomes more difficult to resist with any serious delay in the application of the necessary monetary measures.

For example, during the strong inflationary rise of 1950-1951, artificially low credit terms were maintained though it had been obvious for some time that a reversal from cheap money was imperative. When the Federal Reserve, breaking away from the Treasury, in mid-1951 finally unshackled the money market, it was too late to repair the damage. With the influence of the five elements mentioned previously all working in the direction of a tremendous expansion in the national economy, the minor rise in interest rates which was permitted could not but prove ineffective.

We have now a different situation. There is at present a process of contraction in the economy, though as yet of comparatively minor proportions. Referring to the five elements in order, we find that (1) the trend in durable goods manufacture is downward and has been so since early summer (2) total construction, while at extremely high levels, is moving downward (plant expansion will probably be off \$1 to \$2 billion in 1954, and housing starts may be 100,000 less) (3) inventories are being cut sharply and while total sales are less affected, the backlog of orders is shrinking rather noticeably (4) personal consumption expenditures, while not yet available for the final quarter of 1953, are also probably declining on an annual rate basis, as indicated by the recent trend in the savings (5) government purchases of goods and services are tending lower, which will have the effect of pulling down the gross national product, which, of course, includes total sales.

Effectiveness of Controls

On the basis of the operation of these five factors, there is little doubt that the total economy is in a shrinking phase, though still of lesser proportions. The question is at what point the government may conceivably intervene through a shift in monetary policy to halt this trend, should it become more pronounced in coming months. The obvious fact is that the government probably would decide not to intervene unless the situation deteriorated markedly. Yet, if permitted to reach such a point, intervention would have to be stepped up on a much broader scale. The problem, however, is intertwined with the specific fiscal needs of the government which necessarily would be paramount. In such an event, the desire of the government to provide for deficit financing through issue of low-interest bearing securities would coincide with a generally low interest rate to be made available for business in a declining cycle of activity. That the government will, indeed, pursue this course is already indicated in the preliminary steps being taken to legalize the prospective raising of the debt limit. Sale of new federal issues, of course, could not be economically accomplished from the government's standpoint if high interest rates had to be offered. This is tantamount to saying that in all probability we shall witness a situation in which credit is again controlled and the prospect for a free money market, such as had been hoped for, therefore, would not materialize. This is all the more evident

5 VITAL FACTORS IN THE ECONOMY

1. ***Trend in producers' durable equipment.***
2. ***Private construction, including housing.***
3. ***Change in inventories in relation to sales.***
4. ***Personal consumption expenditures in relation to gross national product.***
5. ***Total sales in relation to government purchases of goods and services, exports, gross national product, producers' durable equipment and private construction.***

since the government will be obliged to make credit available and on satisfactory terms in order to counteract the reactionary influences now being felt and which, presumably, will continue for some time longer.

There is no doubt that the government has the facilities to make credit more available at lower rates. This can be done through a reduction in legal requirements of member banks, increased open market purchases of government securities, or a combination of both.

The question rather arises as to the effectiveness of the anticipated monetary controls in a deepening business recession. It would seem to the writer that not too much effectiveness can be ascribed to this technique until the present adjustment has fulfilled the course as dictated by certain present economic factors which probably cannot be influenced materially by money market conditions. The first of these is that the industrial (*Please turn to page* 518)

—DECISIONS OF COMMISSIONS STAND—

By "VERITAS"

DECISION by the Federal Trade Commission that changes in a quasi-judicial tribunal's personnel is not sufficient ground for re-trying cases already finally decided should put to rest any notion that the Eisenhower-appointed business regulators will be responsive to political argument, allow themselves to be swayed by party ties. Other agencies are certain to make precisely the same answer when claimants raise the plea that the democrats in control were anti-business, and the issues should be re-examined in the light of a more sympathetic trial personnel.

OBVIOUSLY a rule which made finally-determined cases subject to reopening on grounds other than errors of fact or of law, prejudice, or gross abuse of discretion, would make an administrative ruling meaningless. With each change of administration, the cases would have to be tried over. While it is true that findings of regulatory bodies are subject to review in the courts, and remedy may be had that way, such appeals involve loss of time and money, disruption of business pending a final go or stop signal from the judges. And a commission ruling—original, or reversed by itself—carries presumption of correctness. That presumption may be rebutted by evidence at trial, very convincing evidence.

LABOR UNIONS are not slow to demand "a free ride" in many of their work contract negotiations, but the railroad non-operating locals have banded together to demand, among other things, literally a free ride—more expansive travel pass coverage than they now enjoy. Strike, conceivably, could result from management's refusal on that point alone, just as John L. Lewis warned of strike if his men were not allowed a holiday to memorialize mine tragedies—blamed, of course, on lack of employer safety measures, allowing no consideration of employee negligence. Railroad non-ops also want a health and welfare plan, besides the usual demands.

SENATORS must make an early decision on whether their floor rules should be changed to limit the time any member may consume in "exhaustive dissertation"—more commonly, and properly, known as filibustering. Only a few times in history have opponents been able to keep a bill from being talked to death—a two-thirds vote to limit discussion is the only method now available. There has been talk of cloture by majority vote; it may go through. If it doesn't the St. Lawrence Seaway may be the first victim of an oral "educational program."

WASHINGTON SEES

John L. Lewis has ended for the period of his active influence, any likelihood of a strong labor party rising to challenge the two groups which have ruled the roost for the past century.

Simultaneously he has copper-riveted his "disaffiliation" from American Federation of Labor, made the outlook for one united labor entity dimmer than ever before.

All of this comes about as a result of his taking sides with the International Longshoremen's Association (Independent) against the AFL waterfront unions in the New York Port. Lewis already has given financial and moral support to the independent union, tantamount to declaration of open warfare with AFL. The CIO will look with lesser interest at a plan of unity which does not encompass Lewis' United Mine Workers.

Organized labor has little to cheer about as the New Year moves on and congress settles down to work. Its goals are three in number: 1. Major amendments to the Taft-Hartley Act (repeal has been given up as a lost cause). 2. Elimination of exemptions from the provisions of the labor-management law which now restrict union coverage. 3. Guaranteed annual wage.

Congress is not in a mood to go into revision of the labor law if to do so is certain to consume time, create controversy. A few minor changes are in the cards; then, next year will be expected to take care of the larger disputes. There is as much agitation for a firmer T-H Law as there is for one more to labor's liking. A guaranteed annual wage via legislation is regarded simply visionary.

As We Go To Press

Federal agency key men and subordinates almost all the way down the line are having a "breather." This period is to them the lull before the storm. The past six months have been hectic; lights have gone on early and burned late in offices where data were being gathered to be funneled into the Executive Mansion, to be translated into messages, budgets, economic reports. The period of initial planning has been completed. Now the plan is to be examined for sturdiness, its components put through the test tubes and crucibles which collectively are known as the Congress of the United States.

Newspaper stories that the President would take time off from his vacation schedule to work on a message are more than misleading. They create the impression that a communication from the White House to Capitol Hill is something so simple as to be only a matter of grammatical composition. But the standard operating procedure is much more: it brings into play the service of federal payrollers from those who spend their entire working day writing one-line entries into big books to the specialists who handle logarithms like toys.

If businessmen found service from Washington official offices somewhat slow in recent months, it needn't be blamed on lack of attention to the business on hand. One of the things best for government was going on: departmental administrators (not the ones whose names appear in print, who make the speeches, and attend the social functions) were undergoing their annual refresher course in federal finance economics, and the essential fact-finding that precedes revision of the laws.

When the tax and appropriations bills go to committees of congress for justification, the big names will be there. So, will the full offensive and defensive teams. A man who one short year ago was engaged in the business of industry or private finance cannot be expected to know why the government agency he now heads proposes to do something one way when 10 years ago another method was pursued. But a nod to one of the little men cloaked in anonymity will bring the answer, the explanation. He's worked with it, lived with it. When the newspapers say Cabinet Member So-and-So made an impressive presentation before the committee on appropriations, it means that the Cabineteer had sense enough to retain informed aides, bring in additional strenth.

Congress probably will increase its own pay this year. A $5000 annual boost is in prospect. Federal judges also will be voted more money. Agency heads, most of them with one year or less experience, will seek to have general pay levels raised commensurate with the value of the knowledge of government affairs the unheard-of's. For the most part they'll be rebuffed by an "economy-minded congress."

It is doubtful that any organization as big and as complex as the U.S. Government (if there were such an organization) would attempt to stay in business under a policy of continuous employee turnover. The present Administration has gone just about as far as it is safe to go in displacing federal workers. The threat of having civil service protection ripped from them is driving thousands of persons approaching middle age to "look around." The pension plans, vacations and sick leave, and other attractions once peculiar to government jobs now are found equally available in private industry.

Administrators who began their federal service with clean sweeps of personnel gained early favor for cutting payrolls and costs of government. It's honors they would gladly give up today. The proof of that is found in the fact that it is the non-office holding party advisers who are demanding that jobs be made vacant, filled with appointees "sympathetic to the Administration"; it is the agency head who has to work

with the personnel who now is saying "this far; no farther." And being blasted for keeping "Truman democrats" in power. The plea that they have gone as far as good business methods permit is falling on deaf ears.

Good news for business generally is the fact that The Advertising Council is about to launch a nationwide advertising program to accentuate the favorable facets of the economic picture. The council is made up of businessmen, advertisers, and persons in the fields of news gathering and distribution. They're fed up with the constant talk of recession, the whispering of depression. Studying the economic charts and scanning the horizon they see no excuse for the crying towel.

The Advertising Council can do much good in this respect. It has the experience, the know-how. It is the same group of business-minded men FDR called to the White House to put over the war bond sales, via advertising. Sponsors in business and industry, paid for advertising layouts, for brief messages to be printed or aired by radio and TV; advertising agencies worked out the themes without fee; advertisers inserted the promotional material in the copy they had already contracted for in newspapers, magazines, or on the air.

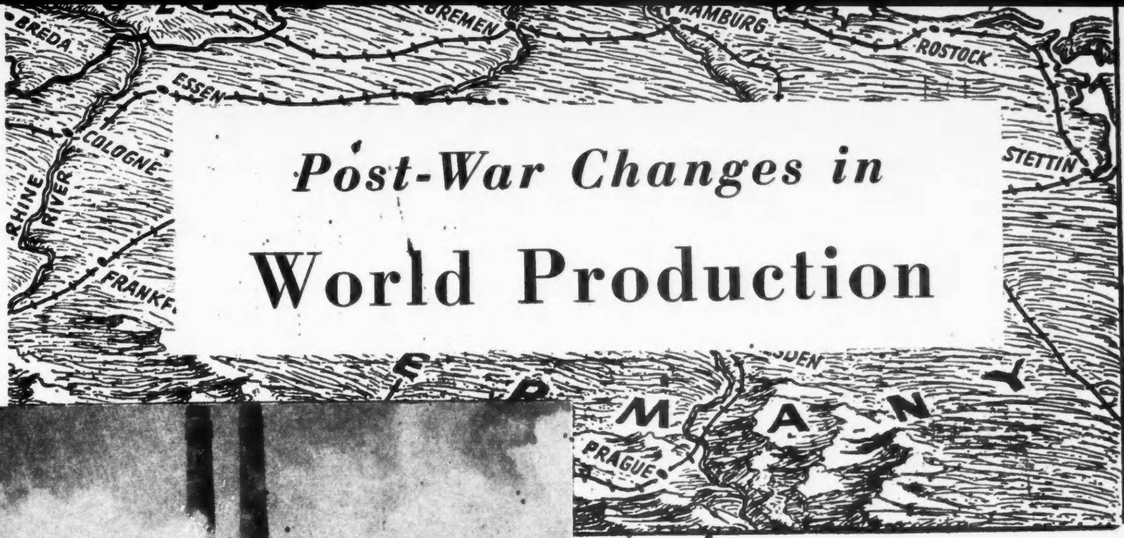
Bond sales, fire prevention, public school construction, better highways, blood donations -- these are a few of the successful campaigns to date. There seems to be no reason why the affirmative side of the present national economy, and outlook, cannot be equally successful adventures. President Eisenhower received the Council members at the White House this month, praised their work, asked them to carry on.

One of the indicators that can be stressed to good advantage is a recent survey of commercial property. It was undertaken by the National Association of Real Estate Boards, using methods which are time-tested; surveys have been made semi-annually for 28 years. Here's the summary: "Commercial property will move in a market marked by stable prices and strong demand during the next six months. The nation's high level of good living is reflected in the strength of the current market for commercial real estate; consumer expenditures and general business activity have provided a firm foundation for values." Real estate boards in 259 communities in 44 states participated in the survey.

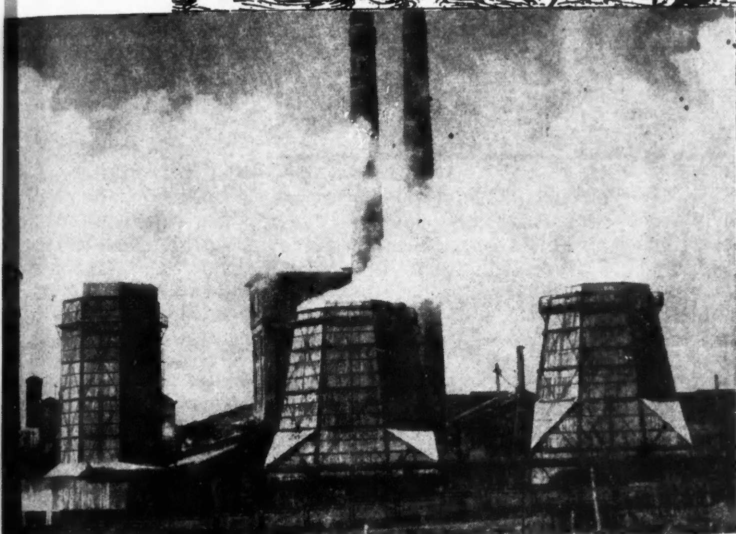
News for the housing industry, not yet sold on the 1954 program outlined by the President's committee, is that the congress wants to look farther too. Most reports have been favorable. Interest centers largely on the plan to eliminate the Federal National Mortgage Association and set up a secondary mortgage market agency in the Home Loan Bank System. Senator Homer Capehart's committee will give housing early attention. He promises a blend of Administration's direct proposals, the report of the President's committee, and congress' own thinking.

The Federal Bureau of Land Management is holding out investment opportunities in fields which sometimes are regarded subject to the vagaries of nature, if not sheer chance. Offered are 960 acres of land in Oklahoma, New Mexico, and Louisiana for coal, potassium, and oil and gas leases. Bids probably will be numerous. The spirit of adventure, financial or otherwise, evidently still is found in the land. The Bureau has additional information available to the skeptical; to those who wish to ask a few questions before sinking oil wells in unfamiliar territory. No guarantees, you understand, they'll be warned.

It is hard to get away from the fact that vast public works programs are visions dancing around in the heads of the Administration's top men. The President was close to coming right out with it in his fireside chat; he had come closer in the text which newsmen were given earlier in theafternoon. As the viewing public heard it at night, and as it appeared in printe next day, Ike was assuring that the government is using every legitimate means available to sustain prosperity.



Post-War Changes in World Production



By V. L. HOROTH

What is happening to world production of goods? Is the output of goods on this side of the Iron Curtain facing a temporary saturation point as it did toward the end of the 'twenties, when, as now, reconstruction had ended and a transition from postwar to more normal economy had begun in earnest?

There are great similarities between the period through which we are passing now and the late 'twenties. Now, as then, many of the reconstruction projects are finished or approaching completion. Thanks to the Marshall Plan, the industrial capacity of Western Europe has been rebuilt, enlarged and modernized. With prices stable or declining, and confidence returning in many of the free world major currencies, the period of free spending—much as in the late 'twenties—is giving way to a period of saving, even in such countries as Austria and Greece.

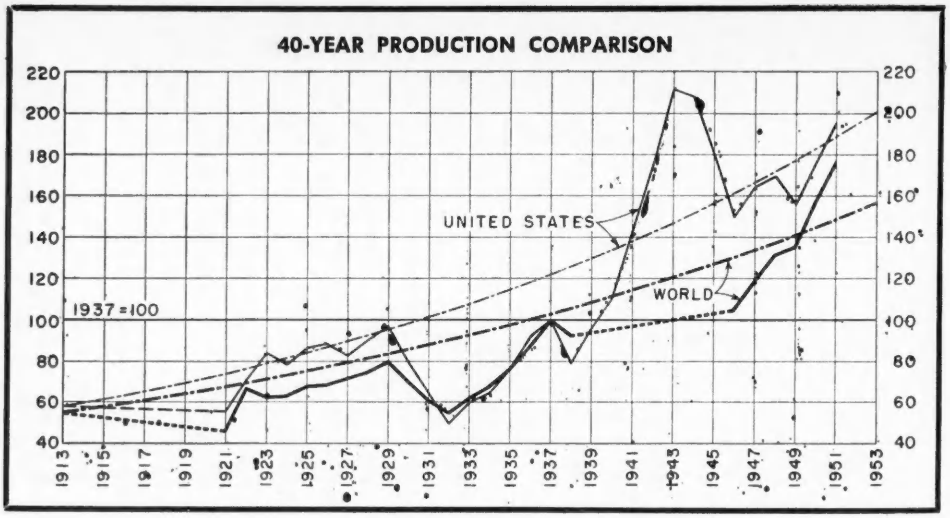
On the other hand, there are important differences between the end of the reconstruction period after World War I and after World War II. A much larger percentage of the existing industrial capacity must be devoted to defense purposes even if the shift from Cold War to Cold Peace permits some relaxation in re-armament. Moreover, compared with the late 'twenties, the free world countries have at their beck and call a whole arsenal of measures, including tax reduction, farm price supports, extended social security, public works—not to mention cheap money—with which they can brake the downward turn of the cycle and prevent a downward spiral.

Are we really threatened by a plethora of goods, and which goods? In the last issue we discussed the pessimistic outlook of the Australian economist, Mr. Colin Clark. But before answering the question, and before making comparisons with 1929, a brief survey of the production situation as it looks now at the beginning of 1954 may be helpful.

Industrial Production at a New High

There is no doubt about one thing: the free world's industrial production established a new record in 1953. However, a leveling off was reported in most countries during the last half of 1953. Although the final figures may not be published for some time, it looks as if the manufacturing and mining output of the free world in 1953 will be about 8 per cent higher than in 1952. In 1952, when Western Europe was under the influence of a temporary recession in the consumer goods industries, the free world output rose 3 per cent above 1951. Compared with prewar (1937), free world output is nearly 80 per cent higher, and about double that of 1929.

As will be seen from the first table, the *United States* and *Canada,* which together probably account for more than half of the free world's production, have contributed more than have other countries to the record-breaking production in 1953. The new industrial production index of the Federal Reserve Board shows that the United States produced in 1953 almost three times as much goods as in 1937, the expansion for the 16 years being even greater here than in Canada. However, in the last quarter of 1953, a heavier than seasonal drop is indicated. In *Canada,* the rate of growth in the last three years has been greater than in the United States, but compared with prewar, Canadian output has apparently not increased as much as in the United States. There are indications that Canadian industrial output also reached a plateau during the latter half of 1953. Canada has just decided to build the longest transcontinental pipe in existence, and a great deal of



expanded output in 1954 will go toward satisfying domestic market requirements.

In the *Netherlands,* both industrial production and productivity have established new records in 1953, but the export trades are encountering increasing competition from Germany and Japan. In *Belgium,* which is a marginal producer in many lines because of high production costs, industrial output fell off in 1953, but the authorities are pushing belated modernization programs, hoping that Belgium will be able to maintain its place in world markets. In *France,* industrial production barely held its own in 1953, because of strikes and the overvaluation of the franc. As in *Italy,* the situation would have been much worse industrially had it not been for U. S. military orders. The French industries have completed their first modernization and re-equipment plan—the Monet Plan—and many industries, coal, steel, cement, electric power, are in excellent condition to compete in the world market, once the franc is allowed to find its own level.

investment is expected in public utilities, railways and electric power generation, although the period of heavy investments in mines and factories seems to be over. The Canadians are anxiously watching the trends in the U. S. economy, and in the opinion of Canadian economists, the country would not escape a U. S. recession as lightly as she did in 1949.

Big Production Rise in Germany

In *Western Europe,* the 1953 industrial output is expected to show an increase of 4 to 5 per cent above 1952 to an average of about 50 per cent above 1937. In *Great Britain,* expanding domestic demand rather than a larger volume of exports was responsible for industrial output setting an all-time high in 1953. The British are hoping that the improving situation in the overseas sterling area will help to keep the 1954 production at a more or less even keel, even should recession develop in the United States.

In *Western Germany,* expansion continues unabated, and during the last quarter, output reached a figure 70 per cent above 1937, indicating that, despite all the destruction, Germany has already pushed her output higher than any other European country. With unemployment declining and wages rising, it is expected that a greater share of the

Production of Textile and Engineering Industries in Western Europe

1948 = 100

	Textile Industries			Machinery & Construction		
	1951 12 mo.	1952 12 mo.	1953 6 mo.	1951 12 mo.	1952 12 mo.	1953 6 mo.
Austria	218	187	192	226	240	209
Belgium	125	104	110	107	104	98
Denmark	125	112	127	130	122	124
Finland	144	141	158	126	118	114
France	113	101	105	124	144	140
West. Germany	255	245	273	293	330	337
Italy	120	110	115	139	149	168
Netherlands	129	116	134	140	145	166
Norway	143	123	131	130	131	136
United Kingdom	119	96	115	124	124	126
Sweden	104	92	107	115	113	113

E.C.E. Bulletins.

In *Spain,* industrial production fell off sharply during the latter half of 1953 but, in view of U. S. aid, the Spaniards are hopeful that in 1954 it will be possible for them to rehabilitate and expand their heavy industries. *Greece and Austria* expanded their production materially and are nearing the stage where U. S. aid to them may be substantially reduced.

As for the newly industrialized countries outside Europe, they did not do so well. In *Argentina, Brazil, and Chile,* industrial production, which roughly doubled since prewar, declined somewhat in 1953, partly because the real purchasing power of wages in all those countries is declining. *Mexico* did better, and a new record was established in 1953. In *India,* industries did better in 1953 because of good crops which gave farmers more purchasing power for industrial goods. In *Japan,* which is living on the brink of serious adjustments, industrial production showed a further expansion, more largely due to highly inflated internal demand than to exports orders. The latter have been steadily shrinking.

Expansion in Capital Goods Production

So much for general industrial production. Turning to special industries, it will be seen that the output of capital goods industries (or engineering trades) expanded relatively faster than output of textile goods, for example, or chemicals. This was not unexpected. Because of reconstruction and the expansion of productive capacity, capital goods industries as a whole had to shoulder a greater task than did consumer goods industries. With industrialization spreading throughout the world, consumer

goods industries in individual countries find themselves working less and less for export and more and more dependent on home markets. Also the retrenchment of the last two years has kept down the output of consumer goods industries, particularly in Western Europe, although the 1953 figures are gentrally above the 1952 level.

With armament production tapering off and most of postwar reconstruction completed, capital goods industries (or engineering trades) may find themselves temporarily over-extended. But that is not the end of it. It is almost certain that the future expansion of industrial capacity in such countries as Great Britain, Germany and Japan—all countries that must export to live better—will take in capital goods and chemical industries. A noted British economist, C. A. R. Crossland, who recently wrote a book on Britain's future economic problems, argues that Britain's industrial capacity has not been expanded enough to permit free convertibility on sterling and higher living standards. He believes that Britain's engineering industries, which already produced at a rate 80 per cent above prewar, should be expanded by another 50 per cent.

In contrast with capital goods industries, consumer goods industries seems to be fairly well adjusted to the current level of demand, except in such cases where they are dependent upon exports, as are the textile industries in a great many Western European countries and in Japan. In fact, if economic conditions in some countries, such as Western Germany and the Netherlands, continue to improve, there is a chance that their consumer goods industries will continue to expand. At any rate, the population of the free world is expanding at the rate of about 20 million a year; growing demand for food, clothing and shelter is, therefore, assured.

After the First World War, consumer goods industries in individual countries were much more closely geared to exports than they are now. When the recession came, they suffered not only through the contraction of the purchasing power of their customers in primary producing countries, but also through world-wide industrialiation. They are in a much stronger position now.

World Output of Food

Although the over-all figures are slow in coming in, it seems that there was also a considerable increase in the 1953 output of food and farm products in general. But, as the Food and Agriculture Organization of the United Nations has noted, this increase was just about offset by the increase in population.

With the exception of North America, Turkey, and some Western European countries, the per capital output of food throughout the World continues to be below prewar. This is partly due to disturbed political and social conditions which keep down, for example, the output of rice and other products in Southeastern Asia. Industrialization also has kept down agricultural production in Australia, Argentina, Brazil, Yugoslavia and many other countries. In the United States and Canada, where labor left the farms during the war, production was more than made up through the use of better seed, more fertilizer, and, above all, extensive use of machinery. In the backyard and capital-poor countries of Southeast Asia or Latin America, no such way out was possible.

Thus the present situation is quite different from that prevailing in the late 'twenties. At that time a great deal of extra acreage was put under the plow, and export surpluses were high, since funds were needed to pay for debt service on the developmental loans. In contrast, the export surpluses of bread grains, fodders, and even cotton are smaller than before the war, since, generally speaking, more food and raw materials are being used at home. As a matter of fact, the great difficulty of the present day is how to expand the export capacity of such countries as Argentina, Brazil, India, Mexico and many other countries, so that they can import more.

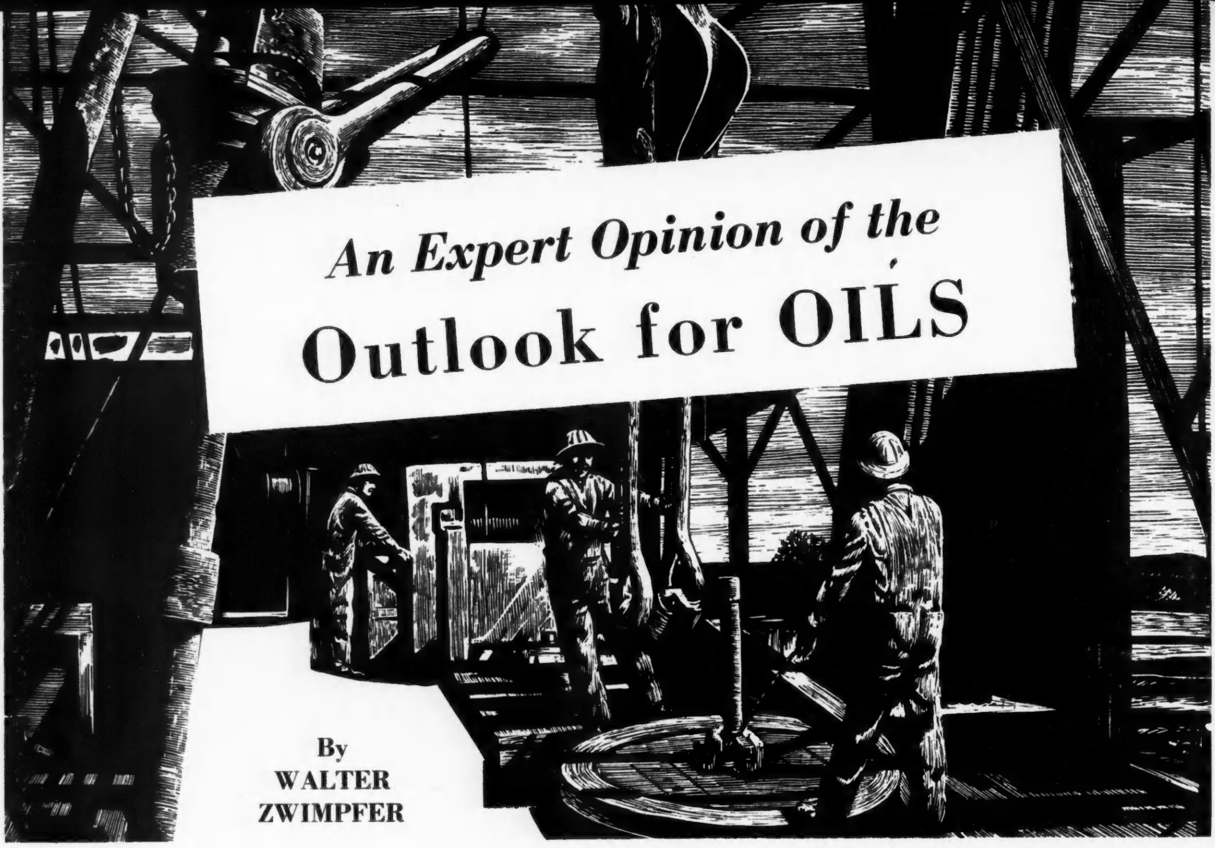
Is the Free World Producing Too Much or Too Little?

One may conclude that the free world outside North America is not (*Please turn to page* 520)

World Output of Major Raw Materials and Fuels

	United States				Rest of the World				Total World			
	1935-39	1951	1952(e)	1953(e)	1935-39	1951	1952(e)	1953(e)	1935-39	1951	1952(e)	1953(e)
POWER & FUELS:												
Electric energy (billion KWH)	146	436	465	510	262	517	598	680	408	953	1,063	1,190
Coal(a) (million tons)	409	520	458	470	1,078	1,395	1,465	1,530	1,487	1,915	1,923	2,000
Crude petroleum (million bbls.)	1,170	2,244	2,295	......	741	2,038	2,205	......	1,911	4,282	4,500	......
Steel (million tons)	47	105	93	112	90	117	135	150	137	222	228	262
Copper (000 tons)	763	842	924	920	1,427	1,528	1,462	1,500	2,190	2,370	2,386	2,420
Zinc (000 tons)	440	800	823	800(e)	1,080	1,295	1,277	1,300	1,520	2,095	2,100	2,100
Lead (000 tons)	363	421	484	434	1,238	1,276	1,216	1,300	1,601	1,697	1,700	1,730
Aluminum (000 tons)	133	759	937	1,250	317	1,029	1,318	1,400	450	1,788	2,255	2,650
Tin (000 tons)	......	......	......	......	205	170	173	......	205	170	173	......
Rubber, natural	......	......	......	......	1,226	1,910	1,785	1,710	1,226	1,910	1,785	1,710
synthetic	1	858	798	840	2	64	80	80	3	922	878	920
Cement (million tons)	19	43	42	42	62	104	108	120	81	147	150	162
									7,910	8,700	......	......
Cotton (000,000 bales)	12.8	15.2	15.0	16.0	16.9	17.7	18.2	18.5	29.7	32.9	33.2	34.5
Rayon (000 tons)	145	434	376	......	397	527	442	......	542	961	818	......
Wool (000,000 lb.)	425	250	260	......	3.375	3,780	3.910	......	3,800	4,030	4.170	......
Jute (000 tons)	......	......	......	......	1,457	1,383	1,965	......	1,457	1,383	1,965	......
Staple fiber (000 tons)	9	152	139	......	274	682	588	......	283	834	727	......

(a)—Including lignite. (e)—Estimate.



An Expert Opinion of the Outlook for OILS

By WALTER ZWIMPFER

Editor's Note: This comprehensive review of the present position and outlook for the oil industry is of special importance in view of the general economic and political factors which are now shaping up and which will influence this vital American industry in the year to come. The author is recognized as an outstanding specialist in the field. We particularly recommend to the attention of readers the comprehensive tables attached to the article and which should be invaluab'e for use as a permanent record.

For the year 1953 the petroleum industry will "rig" up new records productionwise, as well as in gross operating income and net profits. Earnings may be expected to run about 5% over 1952 for the industry as a whole, with producers showing the best improvement.

Although first half results were substantially ahead of the corresponding 1952 period, a price increase, both for crude oil and refined products in mid-June, helped profit margins substantially and gave earnings a further boost in the third quarter. The fourth quarter comparison with a year ago will not be quite as favorable, however, owing to relatively sharp cutbacks in crude oil production and refined products, as well as moderate price concessions in the latter as a result of a heavy build-up in inventories. This latter fact is well illustrated in the accompanying table A. Since overall petroleum products demand for 1953 is estimated to have been about 4% over the previous year an equal increase in stocks could be considered normal, as last year's figures already reflect the seasonal inventory build-up toward peak levels, which normally occur around this time of year.

Evidence has been accumulating for some time suggesting that the inventory position might become troublesome. Not only has production been stepped up, in anticipation of increased demand, but imports also ran substantially higher than in 1952, and by a larger percentage at that. Refiners were equally optimistic and were running expanded facilities as close to economic capacity as possible. Despite larger demand, however, by early fall it became quite evident that earlier estimates were too optimistic, and excessive inventories, both in refined products and crude, made themselves increasingly felt. This led to some corrective action, on the part of state regulatory authorities through reduction in the allowable production for crude oil in the respective states, and on the part of refiners themselves through cut-back in refining operations.

In retrospect, it seems that these steps have been taken somewhat belatedly, for on top of already excessive gasoline stocks, unusually mild fall and early winter weather lessened demand for fuel oil, thus aggravating an already awkward storage situation. However, the petroleum industry possesses great flexibility and with a sober approach it should be able to solve this problem in time, as it has on repeated occasions in the past. One can only hope that this will be accomplished before too much damage is done to 1954 earnings.

Prospects for 1954

Prospects for this year, even allowing for some

letdown in general business activity, suggest a continuation of expanding demand for petroleum products. Such increase is estimated to range between 2½% and 5% over 1953. If the industry is able to solve its current problem of oversupply, and this is of course somewhat conjectural at this time, then the outlook for earnings are indeed more reassuring than for other industries. However, should the industry not be able to overcome this temporary handicap quickly, we could visualize a situation whereby refiners' margins—the spread between the cost of crude oil and the complete barrel price of refined products—may be subjected to a price squeeze, as they have at times in the past, when the industry was confronted with a temporary imbalance of inventories.

The last time this occurred was in 1949, when refiners' margins averaged 30% below the previous year, or $0.97 a barrel vs. $1.11 in 1948. In the latter year, however, they had the benefit of extremely favorable conditions i.e. an increase in product prices which more than compensated for the crude increase and sharply higher volume. Obviously, companies which are predominantly engaged in the refining end of the business (i.e. companies which have to cover the largest part of their crude oil requirements through purchase in the market, rather than from own production) would be hit the hardest under such a set of conditions. Conversely, strictly producing companies would feel practically no ill effect except to the extent that production has to be cut back. Companies falling between these two extremes, which include the major integrated companies, would be affected according to the proportionate extent of their crude purchases.

To provide the reader with some tool to measure vulnerability, theoretically at least, of the respective companies we present in table (B) the amount of actual crude production, expressed in percent of refinery requirements, based on 1952 experience. A footnote to this table also contains some explanations for the reason of the respective classifications. (Please see end of article.)

It is our judgment, however, that even should the industry, and more particularly the refiners, be unfortunate, and not able to correct the imbalance in the supply/demand picture quickly, price repercussions would not be quite as severe as in the foregoing demonstrated instance. In that year, 1949, which, incidentally, witnessed some easing in the general business picture, earnings for some oil companies declined more than 35%, although the overall decline, partly reflecting a 6% decline in total petroleum products demand, is estimated to have been closer to 20%. Assisted by regulatory autorities, the industry is now making every effort to straighten out the troublesome situation; some, if not complete, success seems assured.

With respect to dividends, considering the conservative pay-out policies practiced throughout the industry, present rates appear quite safe. Moreover, current deflated prices for most equities in this group also provide rather generous yields. True, the current uncertainties with respect to the earnings outlook are not inducive to engender any great investment enthusiasm toward oil equities. Moreover, with the exception of only a few companies this group will not derive any benefits from demise of the Excess Profits Tax. But once the earnings outlook begins to attain a clearer picture, and that should be sometime in the first quarter, a more constructive attitude toward this group may evolve.

General Aspects of the Industry

From the standpoint of the investor the petroleum industry ranks as the most important stock group. There are more billions of dollars invested in oil shares, on and off the "Big Board", than in any other single group of securities. Obviously, this great following was not achieved by chance. Rather it is the consistently rewarding investment results which the industry has been able to provide. Despite this favorable background, however, and with products demand growing in every year, with only few exceptions, earnings have been subjected to fairly wide fluctuations from time to time. But on the whole the record is one of more consistent growth and more stable earnings experience than for most other industries, thus providing this group with excellent investment characteristics. Over recent years, and particularly in the postwar period, the growing demand for natural gas, at increasing prices, has benefited

Table A: Petroleum Industry

1. STOCKS (INVENTORIES) IN MILLION BARRELS

	Dec. 12, 1953	Dec. 13, 1952	Increase Over Year Ago
Gasoline	152.5	129.6	18%
Distillates (Fuel Oil)	126.7	109.7	15%
All Others	84.3	79.5	6%
Crude Oil	280.5	268.0	5%
Total	644.0	586.8	10%

2. COMPARATIVE NET INCREASE SHOWING
Index Basis 1939 = 100

	1939	1945	1950	1952
20 Oil Producing and Refining Companies	100	191	511	599
378 Industrial Companies Combined	100	131	369	314

3. COMPARATIVE GROSS OPERATING AND NET INCOME
Index Basis 1939 = 100

	SALES				NET INCOME			
	1939	1945	1950	1952	1939	1945	1950	1952
PETROLEUM COMPANIES BY GROUP:								
8 Producing Companies	100	215	385	489	100	298	831	931
5 Producers on Balance	100	198	426	515	100	245	574	613
8 Integrated Companies	100	182	357	449	100	181	545	598
6 Refiners on Balance	100	198	352	437	100	171	508	523
5 International Companies	100	168	343	430	100	184	500	626

earnings substantially. Holding a close relationship to oil, most leading petroleum producers have substantial natural gas reserves. It has been estimated that they control in excess of 60% of the nearly 200 trillion cubic feet estimated proven reserves at 1952 year end. Natural gas liquids (LPG) extracted largely from natural gas, is also of growing importance. Petrochemicals is another field of operations for oil companies. While earnings from this source are not yet very important, relative to total volume, they are attaining increasingly greater stature. Phillips Petroleum is a typical example in this respect, owning what are believed the largest natural gas reserves with heavy emphasis on petrochemicals in the producing end.

In an attempt at evaluating the vigor of the petroleum industry over a period of years a recent comparison between 20 oil companies and a large number of industrial companies is of considerable interest. While a preponderance of the companies used in that survey are of the integrated type, in fact there were no strictly producers included, we have compiled Table A, which shows both the gross operating and net income of the various groups. We believe it is quite revealing, particularly as far as net income is concerned. While there is not much of a variation as far as sales growth is concerned, the producers outdistanced, by far, the other groups in point of net income. The good showing by the international companies, for the most part, was made possible only by the lush profits reaped since 1950 when all of them, through their interest in the Middle East, benefitted from the suspension of operations in Iran. During the war some of them actually reported poorer results than some of the domestic refiners on balance.

As previously demonstrated, the production end of the business normally nets the best results, but also requires the largest capital expenditures, because exploration is costly. Obviously, exploration success is of paramount importance, and this may vary from year to year, or even sometime over longer periods, but for some hidden reason this group, which consists mostly of moderate sized units, has done remarkably well over the years. Owing to conservative accounting practices reported earnings for some of them are relatively small, as are dividends, but substantially higher cash earnings provide the necessary wherewithal for the sustenance of the costly exploration programs.

In most states, with the exception of Illinois, production of crude oil is prorated by administrative bodies. Texas, the largest producing state, is well known for its so-called "Railroad Commission" which

Table B: Post-War Record—32 Leading Oil Companies

		Crude Production In % of Refinery Requirements	Long-Term Debt 1946	Long-Term Debt 1953	Net Fixed Assets 1946	Net Fixed Assets 1952	Net Working Capital 1946	Net Working Capital 1952
			(Millions)					
CRUDE PRODUCERS:	Amerada				$ 20.0	$ 55.0	$ 39.4	$ 93.1
	American Republics		$ .6	$ 3.0	14.4	25.8	6.8	5.5
	Houston Oil		9.5	17.5	37.3	61.6	5.3	8.1
	Louisiana Land & Explor.				2.9	7.7	2.9	6.3
	Seaboard				8.5	23.9	4.7	12.8
	Superior Oil		25.0	29.6	32.5	93.4	18.4	22.3
	Texas Gulf Producing		7.8	3.6	14.3	18.4	1.2	3.6
	Texas Pacific Coal & Oil				14.1	31.4	2.7	6.6
FULLY-INTEGRATED:	Continental Oil	103%	1.1	60.9	109.4	218.3	30.9	61.2
Producing all or a	Humble Oil	139	42.7	47.8	437.5	854.3	92.1	116.4
substantial part of	Ohio Oil	245	8.0		81.0	169.1	42.5	62.9
crude needs	Skelly	150	16.4	11.9	187.7	74.6	16.6	35.5
	Sunray	176	29.0	79.9	78.2	226.6	8.9	36.0
INTEGRATED COMPANIES:	Atlantic Refining	53	37.2	31.4	205.5	349.4	43.2	52.7
Producing 50% or more	Phillips	62	43.8	263.0	236.5	671.9	44.5	105.2
of crude requirements	Plymouth Oil	52	3.5	17.8	13.4	44.8	1.1	14.8
	Pure Oil	64	31.0	28.4	136.9	238.5	52.0	84.7
	Richfield Oil	60	1.0	71.0	49.3	127.3	36.3	65.1
	Shell Oil	68	124.0	149.0	191.9	491.7	179.5	205.3
	Tide Water Assoc.	64	9.6		140.1	191.2	50.7	85.0
	Union Oil Calif.	67	40.0	123.0	166.8	305.4	45.2	73.0
REFINERS ON BALANCE:	Cities Service	38	390.6	419.0	545.2	635.9	173.1	230.0
Producing less than 50%	Mid-Continent	36			44.1	87.7	36.5	60.5
of requirements	Standard Oil Indiana	48	66.9	355.0	716.6	1,239.6	189.9	405.8
	Standard Oil Ohio	27	16.7	36.9	84.7	158.8	30.6	73.2
	Sinclair	33	108.4	350.0	242.0	649.0	148.5	185.3
	Sun Oil	49	5.6	14.6	114.6	264.6	49.6	88.1
INTERNATIONAL:	Gulf Oil	49	79.6	182.0	482.4	819.6	83.2	366.8
Domestic companies with	Standard Oil Calif.	64	40.0	85.2	519.8	977.1	90.3	235.1
substantial foreign	Standard Oil N. J.	52	198.2	459.0	1,277.7	2,518.5	739.0	1,294.4
operations	Socony-Vacuum	47	100.0	197.0	577.6	980.5	266.0	463.0
	Texas Co.	64	147.0	226.0	414.6	957.0	231.0	464.1

controls allowable production rather rigidly.

The step from a producer to an integrated company means the costly addition of refining, transportation and marketing facilities. To finance these substantial capital expenditures, companies in this group normally have to resort to senior financing and their capital structure is more complex than for the majority of producers, many of which have only common stock outstanding. Operations in this phase of the business normally means more competitive conditions, somewhat lower and also more variable profit margins. This point is amply illustrated in Table D, which shows prevailing refiners' margins and crude prices over a long period of years. It can readily be noted that crude prices have shown better stability, particularly in recent years, than refiners margins.

For further deviation from integrated operations the foreign field can be added and we have, what is commonly known, an international company. Earnings of this group have progressed quite favorably, particularly since Iran bailed out of the picture, early in 1951. At that time Iran produced roughly 650,000 barrels daily, approximately 125,000 bbls. crude and 525,000 bbls. refined products. This deficiency was made up by other Middle Eastern producers from production in Iraq, Kuwait and Saudi Arabia. While a shortage of refined products was temporarily felt in markets outside the United States, where most of the output is sold, increased refining capacity in England and on the Continent, since then has made up the lag; as a matter of fact the British Isles are currently an exporter of refined products on balance.

To say the least, ramifications of foreign operations are manifold, political and otherwise. The wave of nationalism sweeping through the Arab states may be cause for concern, at one time, another time it may be economic unrest or currency problems, etc. Under those circumstances, with a steady threat of one sort or another constantly raising its ugly head, it certainly would seem prudent to evaluate foreign earnings more conservatively than those derived from domestic operations. We believe the investor is entitled to a substantially higher yield, at least for the proportionate amount of foreign income to overall dividend coverage. The same rule should be applied to the evaluation of the market price, and the foreign portion of overall income capitalized at a lower multiple of such earnings. Creole Petroleum, whose properties are entirely (*Please turn to p.* 516)

Table C: Post-War Record—32 Leading Oil Companies

	Net Sales 1946 (Millions)	Net Sales Estimated 1953 (Millions)	Earnings Per Share 1946*	Earnings Per Share Estimated 1953	Dividends Per Share 1946*	Dividends Per Share 1953	Price-Range* High Low 1946-Thru-1953	Recent Price	Div. Yield
CRUDE PRODUCERS:									
Amerada	$ 31.7	$ 85	$ 2.81	$ 5.50	$ .93	$ 3.00	235 - 32¼	170	1.7%
American Republics	8.8	25	.12	3.80	.50	1.75	69½- 11½	48	3.6
Houston Oil	10.9	32	1.66	5.25	.40	2.25	79½- 11⅜	67	3.3
Louisiana Land & Explor.	5.1	22	1.02	3.40	.60	3.00	59 - 9⅝	51	5.8
Seaboard	13.5	38	2.43	5.30	1.00	2.50	103¼- 23	87	2.6
Superior Oil	24.5	83.6	4.36	28.37[1]	.50	3.00[2]	660 -101½	645	.4
Texas Gulf Producing	4.5	12	1.18	3.20	.35	1.55[3]	58⅞- 9½	41	3.7
Texas Pacific Coal & Oil	5.9	22	1.19	4.30	.50	1.65	49 - 10½	36	4.5
FULLY-INTEGRATED:									
Continental Oil	159.2	460	1.82	4.30	.85	2.60	75 - 16⅞	54	4.8
Humble Oil	456.3	995	2.00	4.35	.81	2.28	86½- 24⅜	58	3.9
Ohio Oil	91.8	240	2.78	6.60	1.25	3.25	60⅞- 19⅝	55	5.9
Skelly	78.5	215	1.76	5.40	.35	1.62	51⅛- 7¾	36	4.5
Sunray	20.8	140	.78	2.25	.30	1.20	24¼- 7⅜	16	7.5
INTEGRATED COMPANIES:									
Atlantic Refining	229.2	620	1.09	4.60	.48	2.00	36¾- 10	28	7.1
Phillips	220.0	755	2.30	5.25	1.00	2.60	69½- 24½	55	4.7
Plymouth Oil	7.1	105	1.00	3.75	.50	1.60[3]	37⅛- 9½	25	6.4
Pure Oil	178.8	360	3.74	5.90	1.25	2.50	69¼- 19¾	48	5.2
Richfield Oil	68.8	195	1.76	6.60	.80	3.50	74⅝- 12¾	50	7.0
Shell Oil	442.8	1,245	2.44	8.25	1.50	3.00[3]	87 - 24¼	79	3.7
Tide Water Assoc.	216.3	460	1.49	2.60	.60	1.15	27¼- 8¾	21	5.4
Union Oil Calif.	117.4	310	1.90	6.20	1.00	2.00[3]	45⅝- 20	39	5.1
REFINERS ON BALANCE:									
Cities Service	333.1	915	6.41	12.25	......	5.00	120½- 20¼	80	6.2
Mid-Continent	80.1	170	5.43	7.50	2.00	4.00	81¾- 31½	67	5.9
Standard Oil Indiana	650.6	1,700	4.43	7.80	1.75	2.50[3]	92 - 36⅛	70	3.5
Standard Oil Ohio	160.5	335	3.43	4.30	1.00	2.40	47⅞- 20	34	7.0
Sinclair	376.5	900	2.31	5.25	1.00	2.60	48 - 14	34	7.6
Sun Oil	306.6	645	1.99	5.80	.22	1.00[3]	94¾- 21	69	1.4
INTERNATIONAL:									
Gulf Oil	562.2	1,600	3.21	6.75	1.25	2.00[3]	58⅝- 28¼	46	4.3
Standard Oil Calif.	372.7	1,070	2.34	6.60	.92	3.00	64¼- 19	54	5.5
Standard Oil N. J.	1,622.3	4,100	3.25	8.90	1.52	4.50	85 - 30¾	73	6.1
Socony-Vacuum	761.2	1,600	1.87	5.20	.75	2.25	40⅝- 13¼	36	6.2
Texas Company	586.5	1,520	3.16	6.75	1.25	3.40	60⅜- 26	58	5.8

*—Adjusted for stock splits and stock dividends.
1—Actual, for year ended 8/31/53.
2—Includes $2.00 payable 1/5/54.
3—Plus stock.

5 Sound Moderate-Priced Stocks for Income

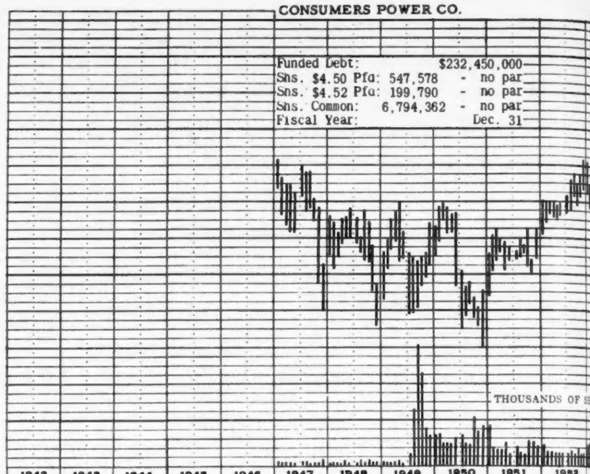
By OUR STAFF

As investment funds pile up, the search for sound income-producing securities with adequate yields is becoming more intensified. Most of the higher-grade and higher-priced stocks, under steady pressure of institutional and other large scale investment absorption, are no longer in large supply and do not yield in excess of 5%. Such paucity of yield may not be a handicap to very large investors but can be a deterrent to the average investor who wants to increase his income as much as possible, without incurring unusual risk.

However, there still remains a fairly wide field of investment available for individuals who seek good-grade common stock investments offering a satisfactory return, under current market conditions. While not of the highest grade, according to institutional standards, such securities fulfill basic investment requirements from the standpoint of the needs of the average investor.

We have selected five such stocks which, in addition to fulfilling requirements as to dividend security, have a special appeal for investors with moderate funds. Selling between $28 and $45 a share they are well within the means of the average investor. All of these stocks are tested dividend payers, with unbroken records of payments going back as far as 1899 in the case of National Biscuit, to 1918 in the case of Reynolds Tobacco "B". While the latter has recently lost some esteem due to the unfavorable aspects of current publicity, it is believed this is of temporary influence and that eventually the stock will regain its former investment standing. The four other stocks in the group are in an unquestioned position insofar as capacity to maintain dividends is concerned.

For those considering a "package" investment, the average yield would be about 5½%, which is attractive for good quality stocks under present market conditions. Essential information, together with pertinent statistical data, on each stock is presented in the following text.



1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952
1.15	1.22	1.00	1.09	2.84	2.81	2.45	2.54	2.78	2.61	2.65
.75	1.00	1.00	1.00	1.75	2.00	2.00	2.00	2.00	2.00	2.00
5.7	12.3	10.3	6.7	22.3	28.0	23.3	a3.3	2.7	20.5	1.9

CONSUMERS POWER COMPANY

BUSINESS: Provides electric or gas service in 63 of the 68 counties in the southern peninsula of Michigan. The territory, consisting of approximately 28,500 square miles has in excess of 3 million population, and diversified industries, including the automobile, automobile equipment, chemical, food products, household appliance, metal and metal products, and many others. Also supplies steam heat to five of 1,474 communities served by the company.

OUTLOOK: Operating in a rich and growing territory that provides a favorable balance of well diversified industrial communities, a sizable population, and extensive rural and resort areas, Consumers Power has a record of steady growth. Since the close of 1946 to the end of 1952 the trend of electric and gas sales has been steadily upward with electric revenues accounting for approximately 73% of 1952 total of $137.4 million, more than twice 1946 operating revenues of $67.5 million. This uptrend continued through 1953, total operating revenues for the 12 months ended Nov. 30, of that year, scoring a gain of $19.3 million over the previous 12 months' volume, and establishing a new record high at $157.2 million. Net income also was at a new peak, increasing to $24.2 million, producing net for the 6,794,362 outstanding shares of common stock equal to $3.08 a share, as compared with $2.73 a share for the 6,176,693 shares outstanding as of Nov. 30, 1952. To keep pace with territory growth and increased electric and gas demands has necessitated a continuous program of expansion of facilities, expenditures for these purposes in the last eight years running close to $340 million, exclusive of about $30 million for construction expenditures of the Michigan Gas Storage Co., 75% owned by Consumers Power, the balance being owned by Panhandle Eastern Gas Pipe Line Co. A substantial portion of electric facilities expansion in the last two years has gone for new generating units, including a 135,000-kw. unit scheduled to be in operation next year, upon completion of which approximately 90% of generating capacity will be in steam stations which should more adequately reflect company's earning power.

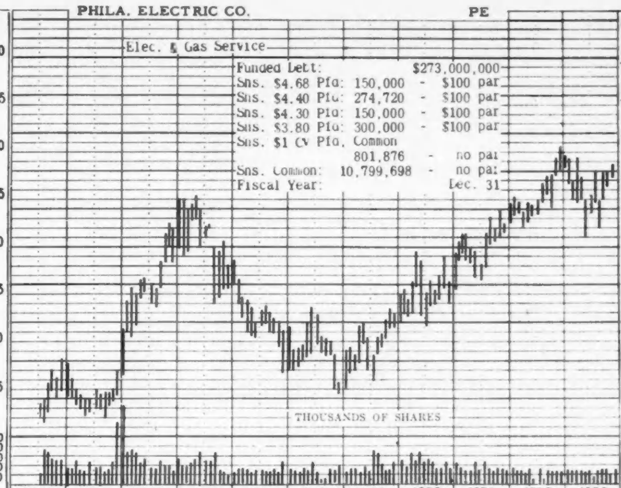
DIVIDENDS: Since public offering of the common stock in 1946, dividends at an annual rate of $2 a share were maintained until increased in 1953 to $2.20 a share.

MARKET ACTION: Recent price of 39¾, compares with a 1952-53 price range of High—40¾, Low—34⅛. At current price the yield is 5.5%.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1943	Sept. 30 1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 19,416	$ 31,399	+$ 11,983
Receivables, Net	4,094	9,522	+ 5,428
Materials & Supplies	5,730	18,278	+ 12,548
Other Current Assets	362		— 362
TOTAL CURRENT ASSETS	29,602	59.199	+ 29,597
Plant & Equipment	267,026	546,742	+ 279,716
Investments & Funds	479	11.833	+ 11,354
Other Assets	8.217	3,408	— 4,809
TOTAL ASSETS	$305,324	$621,182	+$315,858
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 17,280	$ 32,192	+$ 14,912
Other Liabi'ities	1,366	4,084	+ 2,718
Reserve for Depreciation	34,894	92,090	+ 57,196
Other Reserves	3,003	693	— 2,310
Long Term Debt	122,899	230,175	+ 107,276
Preferred Stock	73,971	74,772	+ 801
Common Stock	39,016	153,421	+ 114,405
Surplus	12,895	33,755	+ 20,860
TOTAL LIABILITIES	$305,324	$621,182	+$315,858
WORKING CAPITAL	$ 12,322	$ 27,007	+$ 14,685
CURRENT RATIO	1.7	1.8	+ .1

	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN	1.10	1.16	1.39	2.45	3.36	3.11	3.17	3.08	2.30	2.56	
DIV.	1.20	1.20	1.20	1.20	1.50	2.00	2.00	2.30	2.00	2.00	2.00
Wkg Cap $ Mil	39.9	44.9	50.9	62.5	67.9	63.5	57.0	59.2	50.9	50.1	



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN	1.37	1.50	1.53	1.74	1.71	1.63	1.81	2.31	2.03	2.20	
DIV.	1.40	1.20	1.20	1.20	1.20	1.20	1.20	1.35	1.50	1.50	1.55
Wkg Cap $ Mil	4.8	6.1	4.9	37.2	16.5	27.9	30.0	15.5	.1	1.2	

NATIONAL BISCUIT COMPANY

BUSINESS: Ranks as the world's largest biscuit and cracker company. Modern bakeries, located at central points in the United States, provide part of a system for nationwide distribution of products supplemented by bread business in some sections; and production of shredded wheat, ice cream cones, pretzels, and dog biscuits. Through subsidiaries, operates bakeries in Canada, England and Venezuela.

OUTLOOK: National Biscuit common should have an appeal to the investor seeking a common stock having the combination of defensive characteristics, dependable income, and relative stability in market price. The company's operations, fully integrated, embrace mills supplying 80% or more of daily flour requirements of the bakeries, a carton manufacturing plant producing the greater portion of packaging and wrapping needs, a molasses blending plant, and a modern delivery system working out of 240 sales and distribution branches. Although the company's brand name "Nabisco" is undoubtedly the foremost in the field and has long been accepted by the consumer as a symbol for quality, National Biscuit continues to strengthen its position by a sound advertising program, further improvement and addition to its line of products, and increased operating efficiency by modernizing baking plants and adding new units, both here and in Canada. Since 1946, approximately $120 million have been spent for modernizing and erection of new plants, the most recent addition to the bakery chain being a $20 million plant, the world's largest, that went into operation in Chicago last June. Another bakery is scheduled for construction at a cost of $10 million in the Philadelphia area and is expected to be in operation by Spring, 1955. With the exception of $4 million in bank loans incurred by the Canadian subsidiary for plant modernization and expansion, internal funds have been the source of postwar capital expenditures. Net sales for 1953, based on 9 months' figures, again established a new high at approximately $355 million, as compared with $346 million for 1952, with net earnings in the neighborhood of $2.50 a share, compared with $2.56 in 1952, and $2.30 a share in 1951.

DIVIDENDS: Payments, made without interruption for the last 54 years, have been maintained at a $2 a share annual rate since 1951.

MARKET ACTION: Recent price of 36¼, compares with a 1952-53 price range of High—38, Low—29¾. At current price the yield is 5.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1943	1952 (000 omitted)	Change
ASSETS			
Cash	$ 13,549	$ 14,160	+$ 611
Marketable Securities	17,642	26,300	+ 8,658
Receivables, Net	6,503	9,177	+ 2,674
Inventories	25,649	44,842	+ 19,193
TOTAL CURRENT ASSETS	63,343	94,479	+ 31,136
Net Property	74,502	104,419	+ 29,917
Investments	141	1,128	+ 987
Other Assets	2,419	1,808	— 611
TOTAL ASSETS	$140,405	$201,834	+$ 61,429
LIABILITIES			
Notes Payable—Banks		$ 890	+$ 890
Accounts Payable	4,797	18,050	+ 13,253
Dividends Payable	1,887	3,145	+ 1,258
Tax Reserve	16,728	22,227	+ 5,499
TOTAL CURRENT LIABILITIES	23,412	44,312	+ 20,900
Reserves	9,913	20,726	+ 10,813
Notes Payable—Banks		4,000	+ 4,000
Preferred Stock	24,805	24,805	....
Common Stock	62,894	62,894	
Surplus	19,381	45,097	+ 25,716
TOTAL LIABILITIES	$140,405	$201,834	+$ 61,429
WORKING CAPITAL	$ 39,931	$ 50,167	+$ 10,236
CURRENT RATIO	2.7	2.1	— .6

PHILADELPHIA ELECTRIC COMPANY

BUSINESS: Together with its subsidiaries, Philadelphia Electric serves the populous and highly industrialized Philadelphia area and adjacent territory with electricity and manufactured-natural gas. The company also supplies steam to downtown Philadelphia and the adjacent community of West Chester.

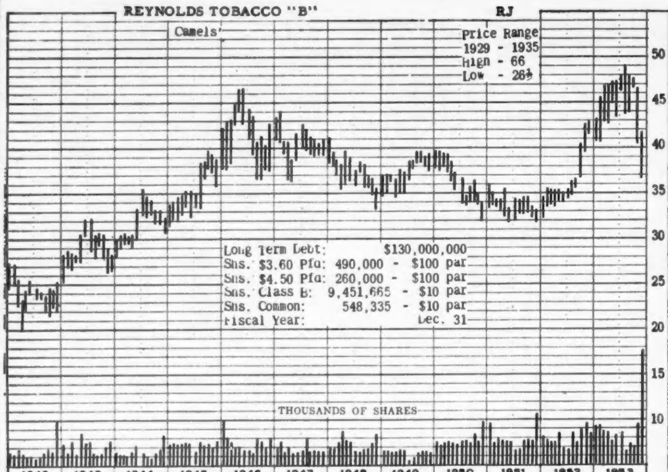
OUTLOOK: Again, as in each of the last 16 years, operating revenues and net earnings reached new highs in 1953. For the 12 months to October 31, last year, operating revenues of $185.4 million increased by 6.8% over $173.5 million for the preceding 12 months, with net income on a slightly greater amount of outstanding common stock rising to $3.25 a share, as compared with $2.19 on the amount of common stock outstanding at the end of October, 1952. The constant year-to-year gain in sales of electricity, gas and steam reflects both the steady population and industrial growth of the area served and the greater industrial and residential consumption of electricity and gas on a per capita basis. Contributing substantially to expansion in revenues in the last two years has been electric and gas sales to the new U. S. Steel Fairless Works at Morrisville, and the development of such vast housing projects as Levittown and Fairless Hills in the Morrisville area. This has added still more strength to the position of the company which has the advantage of serving one of the most diversified industrial areas in the country embracing among others, a number of petroleum companies, food processors, paper manufacturers, chemical and plastic plants, textile mills, metal working plants, machinery and equipment manufacturers, and a representative assortment of other large industries. To keep pace with the service demands, gross capital expenditures in the 8 years to the end of 1952 amounted to $319.5 million, while in the years from the end of 1943 through the first 9 months of last year, net property and equipment account increased $312.2 million, with funded debt and capital stock increasing by only $191 million.

DIVIDENDS: Along with its predecessor, the company has paid dividends without a break for more than half a century, the present rate being $1.60 a share annually.

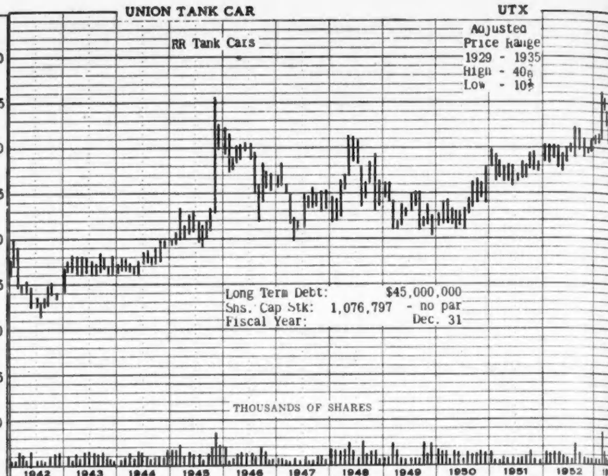
MARKET ACTION: Recent price of 32¼, compares with the 1952-53 price range of High—33⅜, Low—28½. At current price the yield is 4.96%.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1943	Sept. 30 1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 18,964	$ 40,520	+$ 21,556
Receivables, Net	7,785	12,085	+ 4,300
Materials & Supplies	5,468	19,008	+ 13,540
TOTAL CURRENT ASSETS	32,217	71,613	+ 39,396
Property & Equipment	426,569	738,782	+ 312,213
Investments & Advances	2,904	3,872	+ 968
Fund Assets	7,518	350	— 7,168
Other Assets	8,052	5,174	— 2,878
TOTAL ASSETS	$477,260	$819,791	+$342,531
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 27,376	$ 51,468	+$ 24,092
Other Liabilities	4,103	7,124	+ 3,021
Reserves for Depreciation	61,936	143,753	+ 81,817
Other Reserves	3,427	1,335	— 2,092
Long Term Debt	182,244	270,000	+ 87,756
Long Term Debt—Subsid.		32,400	+ 32,400
Preferred Stocks	39,954	88,686	+ 48,732
Common Stock	137,816	160,055	+ 22,239
Surplus	20,404	64,970	+ 44,566
TOTAL LIABILITIES	$477,260	$819,791	+$342,531
WORKING CAPITAL	$ 4,841	$ 20,145	+$ 15,304
CURRENT RATIO	1.1	1.4	+ .3



	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN.	1.99	1.85	1.72	1.84	2.62	3.03	3.26	3.75	3.73	2.92	2.90	
DIV.	1.70	1.50	1.50	1.60	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Wkg Cap $ Mil	143.7	146.8	148.2	199.6	263.3	295.6	387.2	398.2	409.7	412.8	415.9	



	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN.	2.51	2.85	2.18	2.31	3.30	4.23	3.77	3.81	3.90	3.62	4.06	
DIV.	1.90	2.25	2.00	2.00	2.00	2.50	2.60	2.60	2.60	2.60	2.60	[illegible]
Wkg Cap $ Mil	9.9	11.7	14.0	18.7	17.5	11.2	4.4	3.3	2.2	6.0	4.2	[illegible]

R. J. REYNOLDS TOBACCO CO.

BUSINESS: The company is one of the largest of the cigarette manufacturers. "Camels" its principal brand and one of the best sellers of all standard size cigarettes is supplemented by king-size "Cavaliers," Prince Albert smoking tobacco, and a number of brands of chewing tobacco, all of which are also leaders in their respective fields.

OUTLOOK: Earnings stability and a long unbroken dividend record dating from the beginning of the present Century have been factors that over a number of years have recommended the company's Class "B" stock as a reliable income producer and a good defensive issue. These qualities have been reflected by the issue's inherent market strength which carried the shares to a 1953 high of 49 only to break on psychological dumping following the much publicized but inconclusive statement to the effect that cigarette smoking was a possible cause of lung-cancer. Cigarettes have been under fire many times in the past as being injurious to health, but they have not only overcome these attacks but have established new records of production and use as adverse claims have been proven without basis and as a greater portion of a growing population joined the cigarette smokers' ranks. Because of Reynold's foremost position in the industry it should be able to command its share of sales volume and extend its earnings and dividend record, benefiting this year by the elimination of the excess profits tax that took an estimated $1.30 a share out of 1953 operating income, leaving net for the Class "B" stocks at an estimated $3.20 a share as compared with $2.90 for the preceding year. Earnings for the current year, despite a possible downturn in the general economic situation, should parallel last year's figures and the elimination of EPT, on the basis of a conservative estimate, could pull net up to somewhere in the vicinity of $4.15 a share. Such prospects give credence to the belief that dividends on the common stock will be increased during the current year or supplemented by an extra distribution.

DIVIDENDS: The Class "B" common is currently on an annual dividend basis of $2 a share, having been maintained since 1947.

MARKET ACTION: Recent price of 39, compares with a 1952-53 price range of High—49, Low—32⅛. At current price the yield is 5.1%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1943	1952 (000 omitted)	Change
ASSETS			
Cash	$ 9,484	$ 21,033	+$ 11,549
Receivables, Net	15,372	25,703	+ 10,331
Inventories	184,199	506,464	+ 322,265
TOTAL CURRENT ASSETS	209,055	553,200	+ 344,145
Net Property	16,677	34,551	+ 17,874
Investments	2,467	025	— 2,442
Other Assets	2,931	3,865	+ 934
TOTAL ASSETS	$231,130	$591,641	+$360,511
LIABILITIES			
Notes & Debt Payable	$ 39,500	$ 65,000	+$ 25,500
Accounts Payable	3,067	5,821	+ 2,754
Taxes & Accruals	19,669	66,395	+ 46,726
TOTAL CURRENT LIABILITIES	62,236	137,216	+ 74,980
Long Term Debt	10,000	130,000	+ 120,000
Preferred Stock	10,000	75,000	+ 65,000
Common Stock	......	5,483	+ 5,483
Common Stock "Class B"	90,000	94,517	+ 4,517
Surplus	58,894	149,425	+ 90,531
TOTAL LIABILITIES	$231,130	$591,641	+$360,511
WORKING CAPITAL	$146,819	$415,984	+$269,165
CURRENT RATIO	3.3	4.0	+ .7

UNION TANK CAR COMPANY

BUSINESS: Ranks as one of the two largest companies engaged in leasing railway tank cars. Its fleet of approximately 48,000 units is leased, under exclusive contract, to various Standard Oil refineries, as well as other important shippers in this country and Canada for transportation of petroleum products, liquefied petroleum gas, and other bulk liquids. Also operates car building shops and car servicing facilities in the United States and the Dominion.

OUTLOOK: Union Tank Car has long been noted for its well entrenched position as a tank car lessor, its earning power, and stability of dividends. The company has paid dividends, without interruption, since 1914, or shortly after court decree divested the old Standard Oil Co. of N. J., of control. Growth of Union Tank Car has paralleled that of the petroleum industry, the rate of increase in operating revenues and net income accelerating in the postwar years, reflecting greater refinery output and increased consumption of petroleum products, particularly gasolines and fuel oils. Another factor contributing to higher gross operating income of the company has been the demand for tank cars designed to handle liquefied petroleum gas. Although Union Tank has added to its fleet of units during the two previous years, its 1953 schedule provided for the construction in its own shops of an additional 800 tank cars of this type to meet the needs of LPG shippers. It also has expanded its service in Canada where it has solidly entrenched its operations by the construction of car servicing shops in Quebec and Saskatchewan and by taking over Imperial Oil's fleet of 2,240 tank cars, the latter acquisition being consummated as recently as last July. Gross operating income of Union Tank, on the basis of first 9 months' figures for 1953, are indicated at a record high with per share earnings of approximately $4.35 as compared with $4.06 for the previous year, and $3.62 for 1951.

DIVIDENDS: The current annual divivend rate of $2.60 a share on the capital stock has been maintained for the last five years. In 1953, a year-end extra of 10 cents a share brought the year's total distributions to $2.70.

MARKET ACTION: Recent price of 45½, compares with a 1952-53 price range of High—46¼, Low—37⅞. At current price the yield is 5.7% on the regular dividend rate.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1943	June 30 1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 8,537	$ 7,990	—$ 547
Receivables, Net	4,416	4,778	+ 362
Materials & Supplies	1,091	4,733	+ 3,642
TOTAL CURRENT ASSETS	14,044	17,501	+ 3,457
Net Property	22,705	80,376	+ 57,671
Investments	1,362	1,623	+ 261
Other Assets	2,830	491	— 2,339
TOTAL ASSETS	$ 40,941	$ 99,991	+$ 59,050
LIABILITIES			
Accounts Payable	$ 1,041	$ 2,402	+$ 1,361
Tax Reserve	1,299	2,145	+ 846
TOTAL CURRENT LIABILITIES	2,340	4,547	+ 2,207
Reserves	3,385	4,116	+ 731
Long Term Debt	......	45,000	+ 45,000
Common Stock	30,000	30,000	
Surplus	5,216	16,328	+ 11,112
TOTAL LIABILITIES	$ 40,941	$ 99,991	+$ 59,050
WORKING CAPITAL	$ 11,704	$ 12,954	+$ 1,250
CURRENT RATIO	6.1	3.9	— 2.2

★ ★ ★

Pittsburgh Plate Glass Co.

—*A Unique Study In Growth*

By JOHN D. C. WELDON

★

One of the oldest of the great American corporations, Pittsburgh Plate Glass Co. is, at the same time, one of the newest in the range of its products. As one of the two largest manufacturers of plate glass, the company has enjoyed an established position for well over a half century. In recent years, the company has spread its activities into many other fields, covering a tremendous category of activities. It has even entered the field of crude oil and natural gas production, through a subsidiary, the Southern Minerals Corp.

Of greatest interest from the standpoint of dynamics is the company's expansion of fibre glass, one of the newer glass developments, and structural glass which is rapidly becoming a feature of American building construction. Immense business buildings, seemingly composed entirely of glass, are now a familiar spectacle in the larger American cities.

Equally impressive has been the expansion of Pittsburgh Plate Glass in the field of chemicals with a number of the products of its wholly-owned subsidiary, Columbia-Southern Chemical Co., used in the production of plastics, soap, paper and various phases of rubber manufacture, including synthetic rubber.

Process of Expansion

Since the end of World War II especially, the company has been exceedingly aggressive in acquiring all or part interest in a number of companies in allied fields. Almost every year since 1945 has witnessed the addition of some new company to the growing list of wholly-owned or majority-owned subsidiaries. Important joint ventures are the Pittsburgh-Corning Co. which is jointly owned with Corning Glass Works; and Koppers Pittsburgh Co. which is jointly owned with the important Koppers Co. The company is also well represented, through subsidiaries, in South America, Canada and Belgium.

To a considerable extent, the company has freed itself of dependence on outside sources for raw materials used in its manufacturing activities. The availability of these sources has been an important adjunct in maintaining a satisfactory ratio of costs to sales.

Since 1946, sales have increased from $180 million to an estimated $440 million for 1953. This is a remarkable rate of growth even for American industry and is partly accounted for by internal expansion in physical facilities and new products, and partly through the acquisition of other companies.

Property and plant—after depreciation—has kept pace, with an increase of from $71 million approximately in 1946 to $190 million million in 1952. Assuming the same rate for additions to property established in 1951 and 1952, property and plant account for 1953 should be well above $215 million. It is probably true, however, that the company is so well along in its extensive program of construction and improvements that the rate for new additions in 1954 may taper off. It is noted that unexpended authorizations for capital expenditures dropped off from $57.2 million in 1951 to $29.9 million in 1953.

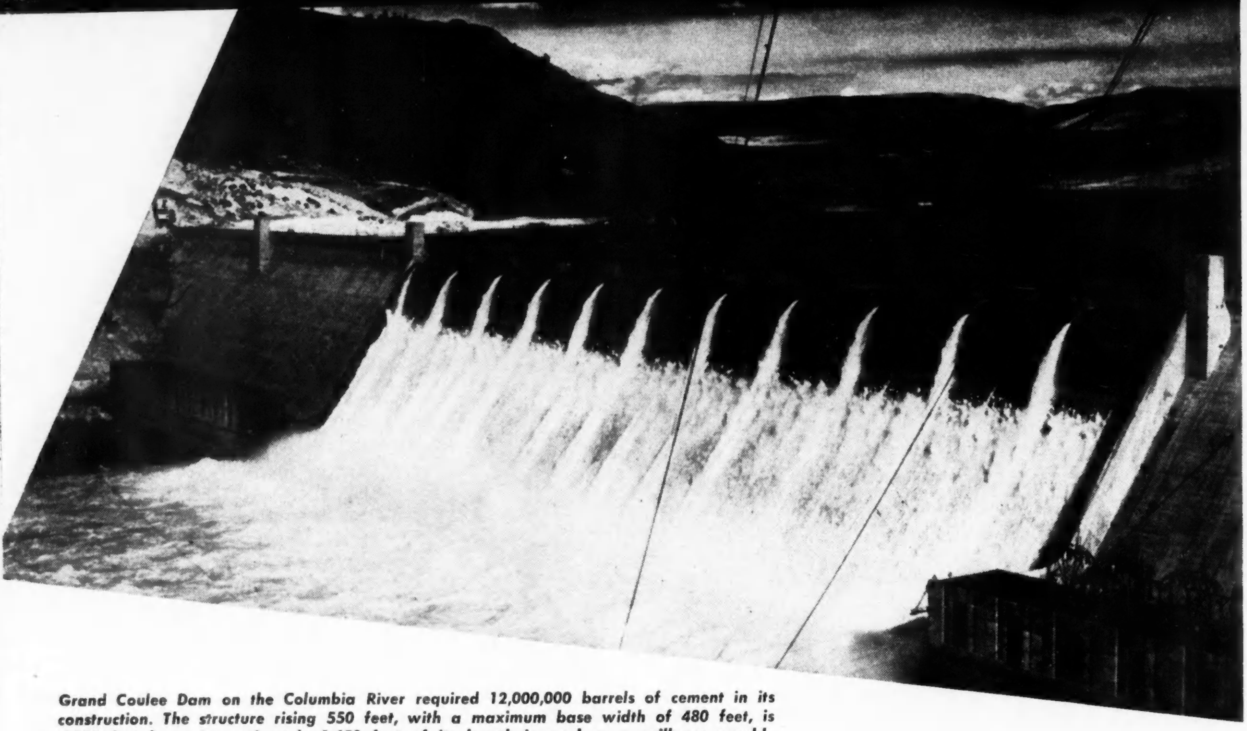
The record of the company indicates that for many years, capital improvements were financed through internal resources. In 1951, however, for the first time in post-war years, note and debenture indebtedness appeared to the extent of $27 million, increased, together with bank loans, in 1952 to $82 million.

Earnings, as distinguished by the company between "real" earnings and those which the company was obliged to report, have been on comparatively steady base for the past few years, averaging about $3.70 a share in the period 1949-1953 (last year estimated at $4.25 a share).

Dividends have been conservative and are being paid at the rate (*Please turn to p.* 520)

Pittsburgh Plate Glass

	Earnings Per Share (as Reported)	Div. Per Share
1946	$ 1.92	$ 1.20
1947	3.11	1.70
1948	3.65	1.75
1949	4.22	1.75
1950	4.64	2.50
1951	3.44	2.00
1952	4.07	2.00
1953	Est. 4.25	2.25



Grand Coulee Dam on the Columbia River required 12,000,000 barrels of cement in its construction. The structure rising 550 feet, with a maximum base width of 480 feet, is 4,500 feet long. Approximately 1,650 feet of its length is used as a spillway capable of passing flood of one million cubic feet per second.

Cement Industry

Faces Favorable New Year

By STANLEY DEVLIN

Amidst all the forecasts, with variations, that are being made as to the economic trend in 1954, the majority of the portland cement manufacturers are optimistic as to the immediate outlook for the portland cement industry.

Contrary to predictions made in the early months of 1953 that building projects financed by private funds would be in a decline, according to preliminary estimates of the U. S. Department of Labor and the U. S. Department of Commerce, new construction put in place during the year totaled $34.8 million, the highest volume in the 39 years for which data are available. Of this sum, $23.6 billion represented private construction, establishing new records for private spending on commercial, religious, educational, and public utility construction, while public outlays gained 4% over 1952 volume to $11.2 billion on schools, highways, and sewer and water construction.

It is conceivable that industrial plant projects in the current year may be under 1953 volume, but at the moment there is no tangible indication that there will be a substantial reduction in new plant expenditures. The usual decline in construction activity in the final months of 1953 was no more than seasonal, most types of construction remaining strong, increasing by 4% above the December, 1952, total. Significantly, although starts of privately owned nonfarm housing were down by almost 11% in November, 1953, based on U. S. Labor Department's Bureau of Labor Statistics preliminary figures, the decline was less than usual for that month, the drop in November from October in each of the previous years from 1950 to 1952, amounting to around 18%. As the Bureau points out, on a seasonally adjusted basis, private starts in November, 1953, were at an annual rate of 1,069,000, the highest rate since last April.

Admittedly, there was some pessimism among a number of important home builders as 1953 drew to a close, but some of this feeling is dissipating as mortgage money is becoming more plentiful with signs of greater buyer interest in new homes. The concensus of opinion among builders is that activity in nonfarm housing should be further stimulated should the Congress adopt the recommendations of the President's advisory committee on housing policies and programs.

Outlook for Thruways

The improved outlook for building starts is in addition to the expectation that expenditures for highway projects, public schools and other government buildings, both Federal and state, and for sewer and water construction will rise above last year's volume. Thruways now in the course of con-

struction and those contemplated by the various states will take huge amounts of cement for their construction. New York's 427-mile express road is moving rapidly ahead to completion scheduled for sometime this year. Ohio has approved a 241-mile, $326 million thruway that is expected to be in operation in 1955 that will connect at one point with a proposed 150-mile thruway that will traverse northern Indiana. In Connecticut a 125 mile thruway has been approved and Florida is looking forward to having a 110 mile super-highway in operation with Miami as its southern terminal. Other states have already laid out thruway plans or have them on the drawing boards.

Although billions of dollars have been spent in bringing thruways into use and modernizing existing highways to handle increased car and truck traffic, studies by highway departments of all the states over the last three or four years have lead to the conclusion that road building programs will have to be stepped up considerably, requiring expenditures at an annual rate of at least $6 billion for the next 15 years. Not all of this total sum would go for cement for the building of concrete roads, but these highways will take more cement than did those built five or ten years ago. Instead of pavements of four or five inches thick, the experts are of the opinion that 9-inch thickness of concrete, as laid down in building the New York Thruway, is essential if the new roads are to stand up for any length of time under the gruelling use of modern traffic.

Consumption of cement for the building of thruways and free highways will continue to take a substantial portion of the portland cement makers' output for years to come. This outlet, however, is but one of the many that have developed in less than a decade, resulting in shipments of the industry within the continental United States increasing from 167.8 million barrels in 1946 to 1952 shipments of 247,-373,020 barrels, an all-time peak which, based on first 1953 ten months' shipments of 227,264,000 barrels (a barrel in all instances being the equivalent of four bags) was surpassed during the year just closed. While large building and other construction projects account for a goodly portion of increased shipments, much of the expansion in the industry reflects the advances made through research by the Portland Cement Association in cement technology, making possible savings in the cost of construction and greater durability and longer life for concrete structures.

New Uses for Cement

Among the fruits of research have been a number of new applications of portland cement and concrete. The use of portland cement for reinforced concrete, through experience and research have resulted in steady improvement, design and construction practice. Now reinforced concrete is accepted and widely used for building construction, including large apartment houses, hotels and other building as well as for a variety of purposes ranging from a simple fence post to vast and complicated engineering projects.

Reinforced concrete has also grown in favor for both the ornamentation and the structural parts of buildings and in the erection of certain types of bridges. In structures where unusually shallow depth, long spans or large unsupported areas are required, prestressed concrete has become an increasingly important adjunct to reinforced concrete. Prestressing breaks down previous limitations on the spans and loads; it permits the building of concrete roofs, floors and structural members for longer unsupported spans than ever before.

Concrete has taken its place as the nation's fastest growing type of house construction. On the farm, concrete has displaced the old red barn and the many other farm structures that required constant maintenance, without which, they quickly deteriorated into eyesores. Concrete structures in the rural areas that lack adequate fire-fighting facilities give greater protection against fire hazards, and on the dairy farm concrete is a virtual necessity for all types of dairy buildings if the utmost in sanitation is to be achieved.

The scope of the various uses of precast concrete structural members has grown rapidly and covers nearly every field of construction, their use including such items as piles and decks for railway and highway bridges, floor and roof slabs, wall panels, joists, beams, girders, and rigid frames. Concrete pipe has displaced cast iron to a great extent in the construction of water and sanitation systems. This type of pipe made in various sizes are used to solve many different types of drainage problems of various airports, rural highways and city streets, manufacturing sites and playing fields. The productivity of many acres of farm land throughout the United States is dependent upon concrete pipe for proper underground drainage.

Increase in Capacity

To keep pace with increasing demand, the industry has made steady gains in productive capacity and has improved its economic structure eliminating obsolete plants, modernizing others and, in some instances, erecting plants in what were rated as "deficit" areas. Plant improvements have helped increase efficiency and widen profit margins. A gen-

Statistical Data on Leading Cement Companies

	1952 Net Sales (Mil.)	1952 Net Profit Margin	1953 1st 9 Months Net Sales (Mil.)	1953 1st 9 Months Net Profit Margin	Earnings Per Share 1952	Earnings Per Share 1st 9 mos. 1953	Price Range 1952-1953	Recent Price	Div. 1953	Div. Yield
Alpha Portland Cement	$ 25.3	10.9%	$ 25.4[1]	10.5%[1]	$ 4.74	$ 4.56[1]	52¼-36¼	43	$ 3.00	6.9%
General Portland Cement	29.4	16.6	23.2	16.2	4.71	3.63	54½-34⅛	48	3.00	6.2
Lehigh Portland Cement	53.6	10.8	44.4	10.3	3.07	2.42	34 -21⅞	27	1.20	4.4
Lone Star Cement	80.9	11.2	59.3	11.2	3.19	2.33	34¼-23½	29	1.75	6.0
Penn-Dixie Cement	24.9	10.7	21.2	12.0	4.44	4.25	39½-23¾	35	2.30	6.5

[1]—12 months ended Sept. 30, 1953.

eral price increase of from 10 to 20 cents a barrel early last year has also helped to restore the proper balance between costs and selling prices that, with portland cement demands in 1954, holding at or close to last year's requirements should mean another profitable year for the major portland cement producers. A brief description of the major companies follows:

Alpha Portland Cement Co.: Although the earnings report of Alpha, covering the 12 months to Sept. 30, 1953, do not fully reflect the benefits accruing from the Spring price rise, net for the full period increased to $4.56 a share, as compared with $4.27 for the corresponding 12 months of the previous year. Increased depreciation charges lowered pre-tax earnings slightly, but despite this excess profits tax amounting to $576,985 was equivalent to 98 cents a share on the outstanding 586,956 shares of common stock. Results for the final quarter of the 1953 calendar year should reflect improved profit margins from the price increase, indications that net for the 1953 calendar year should be slightly in excess of $5.00 a share, as compared to $4.74 for 1952, and again providing a solid base for the $3.00 a share in dividends paid last year, duplicating the rate of payout in 1952. With 1954 cement demands paralleling 1953 shipments, it appears reasonable to anticipate net earnings matching 1953 results with the added benefit of the EPT saving. The company's Sept. 30, 1953, balance sheet showed a good financial position. Current assets of $10.6 million included about $6 million, or approximately 60% of the total, in cash and U. S. Government securities, the latter sum alone being more than three times total current liabilities of $2,002,463. Currently priced around 44¾, the dividend yield is equal to 6.7%.

General Portland Cement Co.: One of the lowest cost portland cement producers, General Portland has scored a steady growth, largely as a result of the steady increase in use of portland cement throughout the south and southwest served by the company's six plants strategically located. Additional productive facilities at the Houston plant are expected to go into operation sometime this year, increasing capacity there by approximately 1,250,000 barrels annually. This is in addition to the 1,250,000 barrel productive increase at the Tampa plant, and will bring annual productive capacity to 13 million barrels. First 1953 half-year earnings equal to $2.30 a share fell under the $2.46 realized in the same period of 1952, but third quarter net of $1.33 a share, as compared to $1.23 in the year earlier reflected benefits of the price increase throughout the industry and fuller operation of the new Tampa facilities. Net for the first nine months of last year, as a result of the comparatively good third quarter, increased to $3.63 a share on which basis full 1953 earnings should amount to approximately $4.80 a share, assuring, especially in view of the current year's favorable outlook, a continuance of the present $3 a share annual dividend rate that has been maintained since 1950. It is estimated that 1953 excess profits tax took about 90 cents a share out of earnings. At current price of 49¼, the stock yields 6.0%.

Lehigh Portland Cement Co.: One of the largest of the portland cement manufacturers, operating 15 well-located plants with a productive capacity of approximately 22.4 million barrels annually. To keep pace with the growth of the industry and to maintain its strong competitive position, Lehigh has carried out a broad improvement and expansion program during the years since the beginning of 1946. Its expenditures, largely from retained earnings, for these purposes total approximately $54 million to the close of last year. A major development has been the construction of the new Bunnell, Florida, plant, that went into operation late in 1952. Initial capacity at Bunnell of 1.4 million barrels annually will add about $3.5 million to total sales volume, but because of accelerated amortization of physical assets to the extent of 70% of total cost over a five-year period, earnings of the new plant will not be immediately reflected in Lehigh's total net income, although on the basis of net income for the first 9 months' of 1953, a period in which earnings amounted to $2.42 a share, indications point to full year's results around $3.40 a share, as compared with $3.07 in 1952, and $2.90 a share in 1951. Because of the substantial capital expenditures in the postwar years and those contemplated in the near future the company has followed a conservative dividend policy, holding the current annual rate to $1.20 a share. Elimination of EPT since the beginning of 1954 may mean a small saving in per share taxes, but it is not likely that this would have any weight in immediately altering the current rate of payment, although the stock is selling on a lower yield basis, 4.2% at recent price of 28, than other cement stocks of equal merit.

Lone Star Cement Corp.: One of the largest of the portland cement manufacturers, Lone Star, in addition to 12 domestic plants so situated as to serve the entire eastern half of the United States as well as the important Gulf Coast area, through subsidiary companies has plants in Cuba and at various points in South America with practically the entire southern continent as a market. The combined capacity of all the plants, amounting to 32.2 million barrels annually has risen steadily in each of the last eight years and will again be increased by another 3 million barrels in the current year as expanded facilities at the Maryneal, Tex., and Roanoke, Va., plants go into full swing, adding materially to sales volume that has risen more than 100% since 1946, or from $39.8 million in that year to an all-time high in 1952 of $80.9 million which when final figures for 1953 are released will probably show this volume to have been duplicated. Continued heavy accelerated amortization charges, together with higher Federal income and excess profits taxes for the year just closed are reflected in a slight dip in net profits to $2.33 a share for the first 9 months of 1953, as compared with $2.42 for the corresponding period of 1952. On the basis of this showing, full 1953 earnings will probably be just above $3.00 a share and under the $3.19 a share shown for the previous year. A significant feature of the 1953 nine months' statement is the evidence of operating economies aided by the price increase put into effect in April of last year. Continuation of this improvement, the elimination of EPT that took about 40 cents a share of 1953 earnings, and a sustained demand for the company's products in this and the Latin American countries, warrant an optimistic view of earnings for the current year, with the possibility that the 1953 dividend rate of 35 cents quarterly and year-end extra of the same amount, could be moderately increased. Such action, however, might be held in abeyance until completion of accelerated amortization. At its current price around 29, the dividend (*Please turn to page* 522)

IMPORTANT INDIVIDUAL 1953 PRICE MOVEMENTS IN THE 300 STOCKS REPRESENTING THE MAGAZINE OF WALL STREET COMBINED AVERAGE

STOCKS SHOWING DECLINES

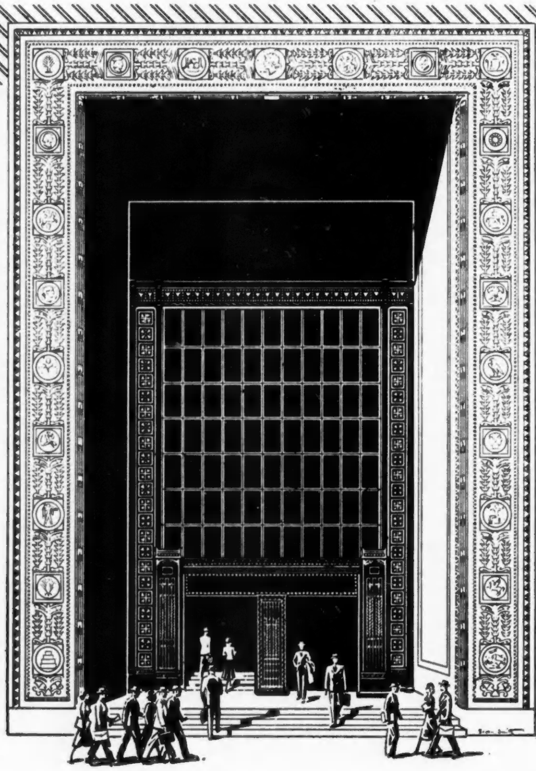
	1953 High	1953 Low	1953 Last	Decrease in Points(a)	Percentage Change %*
Abbott Laboratories	47½	39⅛	45	— 1⅛	— 2%
Admiral Corp.	32¾	18⅝	18⅝	5¾(b)	26
Air Reduction	29⅜	22¼	23½	5¼	18
Allegheny Ludlum Steel	39	25⅛	27⅝	9⅜(a)	23
Allied Chemical	76⅞	62	73⅜	3½	4
American Airlines	15⅜	11⅜	11⅜	3⅜	22
American Car & Fdry.	49¾	30½	31¾	5 (a)	5
American Cyanamid	55⅞	41⅝	47⅝	6¼	11
American Locomotive	18⅞	12½	12½	5⅛	29
American Smelt. & Refining	44	25½	28	14⅞	34
American Steel Foundries	36	25⅝	26⅞	5⅞	18
American Tobacco	77⅜	59⅛	61½	3¾	5
American Viscose	60¾	35⅛	36⅛	24	40
American Woolen	27½	13⅜	14⅞	12⅛	45
Anaconda Copper	45¾	29	29	13½	32
Armco Steel	43⅜	30⅝	32⅞	9½	22
Armour & Co.	12⅜	8⅛	8¾	1⅞	18
Atchison Top. & Santa Fe	103	86	94	7½	7
Atlantic Coast Line	119¾	83¼	84	35¾	30
Atlantic Refining	33¾	25⅝	28	5⅞	17
Baltimore & Ohio	30⅜	18⅜	18⅞	8⅞	32
Bethlehem Steel	57¾	44⅜	50	5¼	9
Borg Warner	86	64¾	75¾	4	5
Burlington Mills	17	10¼	10¾	6	36
Burroughs Corp.	17⅝	13½	15½	1¼	7
Caterpillar Tractor	65¾	45½	49	16¾(a)	22
Celanese Corp.	38⅝	18¾	19¼	18⅞	49
Certain-teed Products	15⅜	11½	12½	1⅞	13
Chesapeake & Ohio	41⅝	33¾	33⅛	6½	16
Chicago, Milw., St. P. & P.	22⅜	10	10	10⅜	51
Chrysler Corp.	96¼	58¾	59⅜	36⅝	38
Cities Service	95⅝	70⅞	78	17¼	18
Commercial Credit	38⅝	31	35¼	2⅛	5
Commercial Solvents	22¼	16	16½	5⅜	24
Continental Oil	62¾	48⅜	52	10⅝	17
Crane Co.	34⅛	25⅛	28½	3	9
Cuban American Sugar	17	11⅜	11⅜	4¾	29
Deere & Co.	30⅜	23¼	24¼	6¼	20
Delaware & Hudson	52⅞	40½	43¾	6¼	12
Dome Mines	23⅜	13⅞	14¼	6½	31
Erie R. R.	22⅞	16	16⅛	6½	28
Flintkote	32	25⅛	25⅜	3½	12
General Baking	14½	10	10¼	3	22
General Cable	14	9½	10⅛	1⅜	12
General Motors	69¾	53⅝	59⅝	4¾	13
Gimbel Bros.	16¾	12⅝	13	2½	16
Grumman Aircraft	28⅛	19⅜	23⅜	2⅜	9
Gulf Oil	50⅝	41¼	46¼	4⅛(a)	4
Homestake Mining	41⅜	32⅞	33	5⅜	14
Houdaille-Hershey	17	12	13	¾	5
Houston Oil	79	54	66¾	4¼	6
Hudson Motor	17	9⅛	10⅞	6⅛	36
Illinois Central	88½	65⅛	76¾	8¾	10
International Harvester	33	24½	27	5¾	17
International Nickel	47⅝	34½	35	11⅜	24
International Tel. & Tel.	20¼	13½	13½	5½	29
Johns-Manville	74⅜	57¾	65⅝	8⅜	11
Kennecott Copper	82	59⅛	64¼	14¼	19
Kresge (S. S.)	35⅞	31¾	32½	2¾	7
Macy (R. H.) & Co.	26	20⅛	20¼	4⅞	19
Minneapolis-Moline	19⅜	8⅞	9¼	8	10
Montgomery Ward	65½	53⅝	56	6	9
Nash-Kelvinator	25¾	16	16	6⅜	28
National Distillers	23½	16⅞	18½	4	18
National Steel	52¼	40⅛	46⅜	4⅝	9
New York Central	25½	18¾	18¾	3⅜	15
Ohio Oil	57⅞	49⅞	53¾	2¾	5
Oliver Corp.	14¾	8⅝	9	5	36
Paramount Pictures	30⅜	24½	26½	1⅝	6
Pennsylvania R. R.	23¾	16⅝	16⅞	5¾	25
Phelps Dodge	43¼	29¼	30⅞	9¼	23
Philco Corp.	36½	26⅝	28½	6¾(a)	15
Philip Morris	55	41¼	42⅝	6⅛	12
Phillips Petroleum	69½	48¾	53½	9¾	15
Public Service Elec. & Gas	27¼	24⅛	25⅝	1⅛	4
Pure Oil	64¾	42¼	46⅜	18¼	28
Radio Corp. of America	29⅜	21	23	5⅜	19
Richfield Oil	65	43¾	48	16	25
St. Joseph Lead	43¼	30⅝	33½	7⅞	19
Schenley Industries	28	20	20¾	6	22
Simmons Co.	34	28⅛	29¼	1½	5
Sinclair Oil	43⅝	30½	31¾	10⅝	25
Socony-Vacuum	37⅝	30	35½	2⅛	5
Southern Pacific	49¾	35⅞	36⅝	9⅜	20
Standard Oil of Calif.	59¾	49¼	52⅞	6⅜	10
Standard Oil of N. J.	78⅝	67	72	5¾	7
Studebaker	43½	20	20½	19⅝	49
Timken Roller Bearing	46¾	35	35⅞	10⅝	23
Union Bag & Paper	49½	38¼	44	3¾	8
Union Pacific R. R.	115¾	100	105¾	9½	8
United Air Lines	32¼	21¼	21⅜	8⅛	27
United Fruit	58⅛	44	45	12⅛	21
U. S. Rubber	31¼	23½	29¾	1⅛	3
U. S. Steel	44⅛	33½	39½	2⅞	7
West Indies Sugar	29¾	17⅜	17⅞	11⅝	39
Westinghouse Air Brake	29⅛	22¼	22⅝	4⅜	16
Woolworth	48	42⅝	43¼	1¾	4
Youngstown Sheet & Tube	47⅜	34	37⅝	8⅞	19
Zenith Radio	84	62⅝	64	17	21

STOCKS SHOWING ADVANCES

	1953 High	1953 Low	1953 Last	Decrease in Points(a)	Percentage Change %*
American Can	40	31⅝	39⅛	+ 3¾	+10%
American Home Products	48¼	36⅛	48	10¾	29
American Mach & Fdry.	24⅞	19⅛	22½	½(a)	7
Boeing Airplane	50¼	36½	48	7¾	19
Borden Co.	61¾	52½	60¼	7½	14
Bridgeport Brass	25⅞	19⅝	24¼	2⅝	12
Canada Dry	13⅜	10	12⅝	1⅜	12
Climax Molybdenum	43⅛	33⅛	37¼	¾	2
Commonwealth Edison	37½	32⅛	37⅛	2½	7
Consumers Power	40¾	35	39⅞	1⅞	5
Continental Baking	25⅛	18⅝	20½	1⅝	9
Continental Can	58¼	45½	54½	6¼	13
Corn Products	78	67⅛	73⅝	4⅛	6
Detroit Edison	30⅞	24½	29¼	4⅜	17
Douglas Aircraft	87¾	60	82⅝	20⅛	32
Du Pont	108⅜	91	107⅜	10¾	11
Eastman Kodak	47¾	41⅝	47⅛	2⅜	10
Freeport Sulphur	51¾	39¼	45¼	2⅝	6
General Electric	92¼	66¼	87½	14¾	20
General Foods	61¾	50⅞	59⅞	6½	12
International Paper	59⅜	47¾	56¼	1¼(a)	12
Kroger Co.	46⅞	37½	46⅞	7⅜	18
Lockheed Aircraft	29⅜	20¼	27½	4⅞(a)	28
Lorillard (P.)	30½	23⅝	25½	1	4
Martin (G. L.)	18⅜	12¼	16⅞	1¾	11
National Biscuit	38	34	36¼	¾	2
National Cash Register	60¼	51½	59½	2⅞(a)	15
National Dairy	66½	56⅝	65¼	6¼	10
N. Y., New Haven & Hart.	34	19⅞	23¾	⅞	4
North Amer. Aviation	22¼	15⅜	21⅛	4⅞	30
Otis Elevator	46¼	37⅝	45¾	6¼	16
Pepsi-Cola	15⅜	10¾	13¼	1⅜	11
Procter & Gamble	71½	59⅜	69	1½	2
Republic Aviation	27	19½	23	3⅛(a)	27
Republic Steel	52¼	40¾	48¾	2	4
Safeway Stores	40⅜	32⅜	39½	5¼	15
Sears Roebuck	62⅞	56⅛	62	2	3
Shell Oil	79½	62⅝	77 (a)	4¾	8
Sperry	49⅛	35¾	46½	3⅞	9
Standard Brands	29⅜	25	28⅜	⅝	2
Swift & Co.	44¼	35⅜	43⅜	7⅞	22
Twentieth Cent. Fox Film	21⅛	13½	20½	7⅛	54
Union Carbide & Carb.	75¼	61½	74¼	2⅝	3
United Aircraft	50⅜	31⅞	46⅝	8⅝	22
Westinghouse Electric	52½	39½	50⅞	3⅛	6
White Motor	30⅛	23	29½	4⅜(a)	17
Willys Overland	16⅝	11¾	16½	3⅞	30

(a)—Unadjusted for stock dividends 10% or less. (b)—Adjusted for 20% stock dividend. *—Adjusted for stock dividends and split-ups.

BANK STOCK OUTLOOK for 1954



By J. S. WILLIAMS

Annual bank statements for 1953 issued this month reflect an excellent year in most cases, marked by a continued growth in gross earnings to all-time high levels. While increases took place also in operating expenses and taxes, net income in most cases rose moderately to establish new peaks.

There were numerous advances in cash dividend rates, though usually of limited size, and some stock dividends and splitups. Market prices of bank shares, which declined somewhat during the first half of 1953, regained most of the loss during the second half and still appear to enjoy a favorable rating by investors.

In examining the major factors affecting bank operations in 1953, the most outstanding is perhaps the sharp decrease in rate of expansion in total bank credit as compared with 1952 and several years prior. Commercial, industrial and agricultural loans of all reporting member banks, which in 1952 had expanded $1,782 million, actually declined in 1953 by $2 million. Despite a continued increase in other types of loans (to security dealers, on real estate, to banks, and miscellaneous, including consumer credit) the expansion in total loans declined from $3,583 million in 1952 to $1,986 million in 1953, or by almost half.

At the same time, the portfolio of U. S. Government securities, which had increased in 1952 by $278 million, declined in 1953 by $179 million. Holdings of other securities, which had increased in 1952 by $478 million, increased in 1953 by only $73 million.

This slowing down in the growth of bank earning assets resulted not only from the slackened need by customers for commercial loans but also from the check that occurred in the expansion of deposits. Demand deposits (adjusted) increased in 1952 by $1,278 million, but in 1953 by only $804 million. U. S. Government deposits in 1952 increased by $1,322 million, but in 1953 decreased by $986 million. Time deposits, however, which in 1952 had increased by $1,367 million, accelerated the rate slightly in 1953 to $1,585 million.

In the broad economic picture, this slowing down in the rate of bank credit expansion reects the success of the country's fiscal and monetary authorities—executed with the cooperation of the commercial bankers—in putting the brakes on inflation and arresting the slump in the value of the dollar. Commodity prices and bank loans are so interrelated that a rise in one is both cause and effect of a rise in the other. *With the artificial boom induced by the Korean action now largely subsided, most commodities in ample if not excess supply, and price levels stable or soft, there is no longer much incentive for business to accumulate or carry inventories any larger than needed for reasonable requirements.*

Against this background of slackening demand for bank credit last year, the explanation of the improved earnings is found in the slightly higher level of average interest rates that prevailed—together with good revenues from departmental service charges and a remarkably low experience of losses on bad loans. This is noted in the table on changes in typical money rates and bond yields.

Following the money squeeze in the early summer of 1953, the lowering of bank reserve requirements and the subsequent sharp recovery in market prices of government securities have again driven down yields to the levels of a year ago or even lower.

This development, considered along with the possibility of a further slackening in demand for bank borrowing, has caused repeated rumors of a break in the rate for "prime" commercial loans, which was raised from 3 to 3¼% last April. Such rate, which is in no sense "official" but is granted generally by the large banks on short-term loans to their best customers, is at the highest point since the depths of the great depression. It ruled unchanged at 1½% from 1933 to 1947, when it was raised to 1¾%,

followed by increases in 1948 to 2%, in 1950 to 2¼%, and three ¼% increases in 1951 to 3%. Foreshadowing, possibly, a cutback in the prime rate have been recent decreases in rates both for open-market commercial paper and for sales finance company paper bought by banks.

The consistent record of improvement in bank operating earnings during the past ten years is shown in the accompanying summary of all insured commercial banks in the United States, with 1953 figures partly estimated.

Current operating earnings are derived principally from interest on loans, income from securities, and receipt from various service charges, branch operations, etc., most of which have continued on the rise. Current operating expense statements for last year reveal, in the case of many banks, that the largest item was taxes (including income taxes, realty taxes, social security taxes, deposit insurance assessments, etc.) the total of which actually exceeded total wages and salaries paid. This year, many banks will obtain relief through the expiration of the excess profits tax. Another heavy and growing expense is the interest paid on savings accounts, reflecting both the growth in such deposits and the widespread increases last year in rates paid to depositors.

Net operating earnings after taxes exclude numerous special transactions involving charge-offs of bad loans and losses on securities, recoveries and profits on such items, and transfers of various reserves into and out of income or surplus accounts. Because of these special accounting practices peculiar to banks, the published figures on "operating earnings" invariably differ somewhat from the "indicated earnings" based on the net change in balance sheet surplus after allowance for dividends paid. Moreover, earnings computed on either basis are often distorted by security sales and purchases, combined with the application of high income tax rates.

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In addition, they stand to benefit by a probable recovery in prices as the securities approach maturity, which may be treated not as regular income but as capital gains subject to a lower rate of tax. Because of switches of this sort in 1953, the reported earnings of many banks appeared lower than they would otherwise have been. A corresponding or even greater gain, of course, should carry over into 1954 or later years.

From the statistical data on twenty leading bank stocks, it will be noted that the 1953 earnings per share (net operating or indicated) increased over those of 1952 in practically every case.

Among the balance sheet items, however, the changes were mixed, reflecting particularly the fact that most of the big *(Please turn to page 518)*

Post-Korean Changes in Interest Rates and Bond Yields

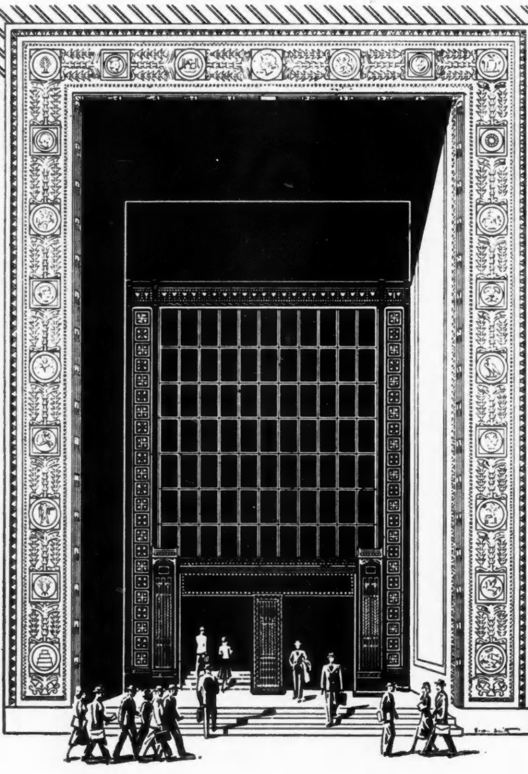
	June 1950	Jan. 1953	Jan. 1954
MONEY RATES:			
Prime commercial loans	$2.00	$3.00	$3.25
Commercial paper, 4-6 mos.	1.31	2.31	2.25
Bankers acceptances, 90 days	1.06	1.82	1.88
Treasury bills, 3 months	1.17	2.04	1.57
Treasury certificates, 9-12 mos.	1.23	1.97	1.50
Treasury notes, 3-5 yrs.	1.47	2.39	2.37
Fed. Res. Bank rediscounts	1.50	2.00	2.00
BOND YIELDS			
Baa Corporate bonds	3.28	3.51	3.74
AAA Corporate bonds	2.62	3.02	3.12
Long-term U. S. bonds	2.33	2.80	2.88
High-grade municipal bonds	2.09	2.42	2.58

Statistical Data on Leading Bank Stocks

	— Total Deposits —		– Loans & Discounts –		U.S. Govt. Securities		Book Value per Share	Earnings per Share*		Indicated Current Dividend	Recent Price	Dividend Yield
	12-31-53	12-31-52	12-31-53	12-31-52	12-31-53	12-31-52	12-31-53	Year 1953	Year 1952			
	(Millions)											
Amer. Trust, San Francisco	$1,198	$1,170	$ 560	$ 528	$ 377	$ 363	$ 34.20	$ 2.75	$ 2.48	$ 1.40	$ 32½	4.3%
Bank of Amer., S. Francisco	7,744	7,485	4,149	4,069	1,669	1,756	18.40	2.31	2.10	1.60	34¾	4.6
Bank of Manhattan, N. Y.	1,299	1,269	622	583	324	313	34.40	2.70	2.52	1.70	38¼	4.4
Bankers Trust, N. Y.	1,908	1,907	988	1,012	505	503	58.90	4.17	3.97	2.20	52½	4.2
Chase National, N. Y.	5,062	5,247	2,394	2,512	927	1,053	51.80	3.65	3.48	2.00	45½	4.4
Chemical Bank, N. Y.	1,816	1,881	774	823	453	486	46.90	3.98	3.60	2.00	48	4.2
Cleveland Trust Co.	1,278	1,243	501	470	465	487	217.00	......	......	6.00	190	3.2
Continental Illinois, Chi.	2,536	2,480	793	694	1,116	1,179	92.50	7.94	6.77	4.00	86½	4.6
Corn Exchange, N. Y.	775	771	216	185	334	343	68.50	5.25	4.71	3.00	61¾	4.9
First National of Boston	1,536	1,520	689	724	443	411	46.00	......	4.13	2.40	50	4.8
First National of Chicago	2,621	2,477	1,192	1,148	817	695	216.00	16.85	14.35	8.00	262	3.1
First National of N. Y.	580	553	269	245	171	213	474.50	23.15	24.28	23.00	381	6.0
Guaranty Trust, N. Y.	2,521	2,625	1,405	1,566	743	699	78.20	4.49	4.78[3]	3.50	65¾	5.3
Hanover Bank, N. Y.	1,657	1,677	705	691	572	511	121.80	8.25	7.75	4.00	100	4.0
Irving Trust, N. Y.	1,324	1,264	608	632	373	353	24.50	1.73	1.63	1.30	23	5.6
Manufacturers Trust, N. Y.	2,699	2,726	918	875	833	805	71.20	5.81	5.31	3.00	62⅞	4.8
National Bank of Detroit	1,700	1,639	358	332	801	722	41.30	3.41	3.51[2]	2.00	44¼	4.5
National City, N. Y.	5.538	5,614	2,369	2,270	1,540	1,427	56.60[1]	4.17[1]	3.83[1]	2.20[1]	52⅜	4.2
New York Trust	679	718	327	337	215	224	123.90	9.01	8.70	5.50	113½	4.8
Philadelphia National	804	811	315	319	182	199	97.50	......	8.09	5.00	103¾	4.8

*—Net operating or indicated earnings.
[1]—Includes City Bank Farmers Trust Co.
[2]—Adjusted for stock dividend paid Nov. 16, 1953.
[3]—Adjusted to reflect 5-for-1 stock split in Jan. 1953.

BANK STOCK OUTLOOK for 1954



By J. S. WILLIAMS

Annual bank statements for 1953 issued this month reflect an excellent year in most cases, marked by a continued growth in gross earnings to all-time high levels. While increases took place also in operating expenses and taxes, net income in most cases rose moderately to establish new peaks.

There were numerous advances in cash dividend rates, though usually of limited size, and some stock dividends and splitups. Market prices of bank shares, which declined somewhat during the first half of 1953, regained most of the loss during the second half and still appear to enjoy a favorable rating by investors.

In examining the major factors affecting bank operations in 1953, the most outstanding is perhaps the sharp decrease in rate of expansion in total bank credit as compared with 1952 and several years prior. Commercial, industrial and agricultural loans of all reporting member banks, which in 1952 had expanded $1,782 million, actually declined in 1953 by $2 million. Despite a continued increase in other types of loans (to security dealers, on real estate, to banks, and miscellaneous, including consumer credit) the expansion in total loans declined from $3,583 million in 1952 to $1,986 million in 1953, or by almost half.

At the same time, the portfolio of U. S. Government securities, which had increased in 1952 by $278 million, declined in 1953 by $179 million. Holdings of other securities, which had increased in 1952 by $478 million, increased in 1953 by only $73 million.

This slowing down in the growth of bank earning assets resulted not only from the slackened need by customers for commercial loans but also from the check that occurred in the expansion of deposits. Demand deposits (adjusted) increased in 1952 by $1,278 million, but in 1953 by only $804 million. U. S. Government deposits in 1952 increased by $1,322 million, but in 1953 decreased by $986 million. Time deposits, however, which in 1952 had increased by $1,367 million, accelerated the rate slightly in 1953 to $1,585 million.

In the broad economic picture, this slowing down in the rate of bank credit expansion reects the success of the country's fiscal and monetary authorities—executed with the cooperation of the commercial bankers—in putting the brakes on inflation and arresting the slump in the value of the dollar. Commodity prices and bank loans are so interrelated that a rise in one is both cause and effect of a rise in the other. *With the artificial boom induced by the Korean action now largely subsided, most commodities in ample if not excess supply, and price levels stable or soft, there is no longer much incentive for business to accumulate or carry inventories any larger than needed for reasonable requirements.*

Against this background of slackening demand for bank credit last year, the explanation of the improved earnings is found in the slightly higher level of average interest rates that prevailed—together with good revenues from departmental service charges and a remarkably low experience of losses on bad loans. This is noted in the table on changes in typical money rates and bond yields.

Following the money squeeze in the early summer of 1953, the lowering of bank reserve requirements and the subsequent sharp recovery in market prices of government securities have again driven down yields to the levels of a year ago or even lower.

This development, considered along with the possibility of a further slackening in demand for bank borrowing, has caused repeated rumors of a break in the rate for "prime" commercial loans, which was raised from 3 to 3¼% last April. Such rate, which is in no sense "official" but is granted generally by the large banks on short-term loans to their best customers, is at the highest point since the depths of the great depression. It ruled unchanged at 1½% from 1933 to 1947, when it was raised to 1¾%,

followed by increases in 1948 to 2%, in 1950 to 2¼%, and three ¼% increases in 1951 to 3%. Foreshadowing, possibly, a cutback in the prime rate have been recent decreases in rates both for open-market commercial paper and for sales finance company paper bought by banks.

The consistent record of improvement in bank operating earnings during the past ten years is shown in the accompanying summary of all insured commercial banks in the United States, with 1953 figures partly estimated.

Current operating earnings are derived principally from interest on loans, income from securities, and receipt from various service charges, branch operations, etc., most of which have continued on the rise. Current operating expense statements for last year reveal, in the case of many banks, that the largest item was taxes (including income taxes, realty taxes, social security taxes, deposit insurance assessments, etc.) the total of which actually exceeded total wages and salaries paid. This year, many banks will obtain relief through the expiration of the excess profits tax. Another heavy and growing expense is the interest paid on savings accounts, reflecting both the growth in such deposits and the widespread increases last year in rates paid to depositors.

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Statistical Data on Leading Bank Stocks

	— Total Deposits — (Millions)		— Loans & Discounts — (Millions)		U.S. Govt. Securities (Millions)		Book Value per Share	Earnings per Share*		Indicated Current	Recent	Dividend
	12-31-53	12-31-52	12-31-53	12-31-52	12-31-53	12-31-52	12-31-53	Year 1953	Year 1952	Dividend	Price	Yield
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FOR

PROFIT

AND

INCOME

The Record

The Dow industrial average started 1954 at a level roughly 13 points under the bull-market high of early-January 1953, but about 25 points above the 1953 low set last September. Whether this is figured as a bear market or a trading-swing market, the starting 1954 level suggests a bigger potential for decline than advance. Rails began the year about 18 points under their high, and only some 4 points above the September low. The pattern of this average is bearish. Both lost ground in December, the industrials slightly the rails materially, contrary to net gains in that month in roughly two-thirds of all past years in the long history of the Dow averages. Both have weakened up to this writing, following brief improvement in the first few days of January. For January as a whole, the past record indicates no significant seasonal bias on an average basis, when you figure that the mathematical odds should be about two to one in favor of advance in any month on a long-term average, since bull markets last about twice as long as bear markets. Despite this allowance, February has brought declines in both averages in more years than not.

Defensive

Defensive stocks are defined as those which, because of relative stability of earnings and dividends, can be expected to fluctuate considerably less than the general market. In the past they have at times been more defensive in theory than in fact. Most income stocks took bad beatings—even if not quite as bad as did cyclical and speculative stocks—in the 1929-1932, 1937-1938 and 1939-1942 bear markets. On a relative basis, they fared materially better in the mild 1946-1947 and 1948-1949 bear markets, especially in the latter. After about one year of this thus-far minor bear market, defensive stocks on the whole have improved in relative market position more largely than ever before in a comparable time period after the recording of a major top by the general market. The increased role of institutional investment in common stocks may be a goodly part of the answer. Capital put into a broad and representative list of defensive stocks at the end of 1953 would not only have been intact, but would have shown a material appreciation, at the start of 1954. However, results have varied sharply among the individual stock groups generally classed as defensive.

Variations

Defensive-type stock groups faring well in 1953 as a whole were: dairy products, proprietary drugs, food stores, food brands, small-loan companies, utilities, chewing-gum issues, soft drinks, flour millers, soaps and biscuit bakers. In all cases, earnings trends and prospects are good, satisfactory or better than average. It should be noted that in the case of food stores, earnings were severely squeezed for some time under OPS price control; and that they—and the stocks—have now had sharp recoveries from pre-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1953	1952
Food Fair Stores	28 weeks Nov. 7	$1.12	$ .94
Murray Corp. of Amer.	Quar. Nov. 30	.83	.68
New York Central R. R.	11 mos. Nov. 30	4.93	2.71
Middle South Utilities	3 mos. Nov. 30	.57	.48
Clinton Foods Inc.	Year Sept. 30	4.01	1.50
North Amer. Aviation	Year Sept. 30	3.72	2.28
Detroit Edison Co.	12 mos. Nov. 30	2.00	1.65
Swift & Co.	Year Oct. 31	5.72	3.66
Crown Zellerbach	6 mos. Oct. 31	1.85	1.74
Hayes Industries Inc.	Quar. Oct. 31	.75	.57

viously depressed levels. As usual, there have been some exceptions to the rule of good performance by defensive stocks. In terms of stock groups, the principal ones, all down importantly from 1952 closing levels and down widely from earlier best levels, are gold mining, cigarette stocks and variety-store chains.

Gold

The major boost in the Treasury price for gold effected by the New Deal early in 1934 was a bonanza for gold mining companies. But that is history. With selling prices static, higher operating costs have long since caught up with the gold-mining industry, squeezing profits severely. It could be that the worst has been seen. Although there is nothing in sight to suggest a higher official gold price, operating costs have stopped rising; and they figure to recede at least a little under general business recession. The stocks might be better defensively from this point than some which have risen sharply to levels at which dividend yields are not very alluring. The latter is so of quite a few of the food-store stocks; and of some dairy-products, food brands and other income stocks. Homestake, the best of the gold issues, is now about one point over its 1953 low of 32⅞, on a yield basis not far from 6%; and about 7 points under its fairly low 1953 high.

Tobaccos

The reason for the decline in cigarette stocks—the medical debate as regards the relationship between smoking and lung cancer—has had wide publicity. The "smoke" thus stirred up may not clear fully for months or even several years. But probably the publicity will die down. For most smokers, the habit has a strong hold. The chances are that unit cigarette sales will be slightly lower this year, dollar sales at least about equal to 1953's. Savings from EPT lapse should mean higher 1954 earnings for at least such leading companies as American Tobacco and Reynolds. Whether the stocks have seen their lows is, of course, conjectural; but they are at low enough levels to argue against sales, if not for scale-down buying.

Variety Chains

In relation to the general market, variety store issues are among the most backward of the defensive-group stocks, food-store stocks among the more advanced. The big food-store chains continue to gain in sales at competitive expense to small chains and independent grocery stores. On the other hand, operations of variety chains are not as stable as they formerly were. There was maximum stability in this type of retailing years ago when the "five and dime" stores stuck rigidly to their low-price field, in most cases handling no item above 25 cents in price; and when clerk wages were a pittance in comparison with present standards. Now the variety store is, or verges on being, a junior department store. It has broadened its range of direct competition with a number of other types of retailing; and some of the latter, including drug-store chains and supermarkets, have been increasingly selling items of variety-store type. It used to take a severe depression to affect "five and dime" sales and earnings more than moderately. As it is now, mild recession can reduce sales not much less for variety chains than for department stores and general-merchandise chains. With operating costs higher, this means greater instability of earning power. The considerations cited explain the drab market behavior of variety-store stocks, and the considerations are not subject to easy change. Hence, until the stocks are more thoroughly sold out, it is hard to see a basis for them doing much better.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1953	1952
Masonite Corp.	Quar. Nov. 30	$ .30	$ .63
City Investing Co.	6 mos. Oct. 31	.27	2.74
Cuban Amer. Sugar	Year Sept. 30	1.01	3.70
South Porto Rico Sugar	Year Sept. 30	3.07	7.83
Dresser Industries Inc.	Year Oct. 31	3.80	4.28
City Stores Co.	Quar. Oct. 31	.35	.59
Allied Stores Corp.	Quar. Oct. 31	1.17	1.33
Marathon Corp.	Year Oct. 31	1.55	2.18
N. Y. City Omnibus Corp.	9 mos. Sept. 30	.74	1.79
United States Plywood	Quar. Oct. 31	.71	1.01

Tax Relief?

Among the tax revisions worked out jointly and agreed on by staff experts of the Treasury and of the House-Senate Committee on Internal Revenue Taxation is a good start on relief from double-taxation of distributed corporate earnings. It is recommended that a credit equal to 5% of dividend income be deductible from personal tax liability in the first year after adoption of this reform, 10% in the second year and 15% in the third and all later years. It is suggested that this schedule of three-year relief start from a July 1, 1954, effective date. If Congress goes along, the effect will be to add importantly to the investment attraction of better-grade, dividend-paying common stocks. In the lowest tax bracket, a 5% credit for dividend income, added to the 10% cut in income tax rates now in effect, would mean an increase of about 10% in "take-home" dividend income in the first full year of this change, as compared with 1953. In the tax bracket of $16,000 to $36,000 for joint returns, it would mean a gain of roughly 15% to 20% in "take-home" dividend income. The gain reaches about 27% to 35% at the level above $36,000 to $76,000 joint-return income.

Other Estimates

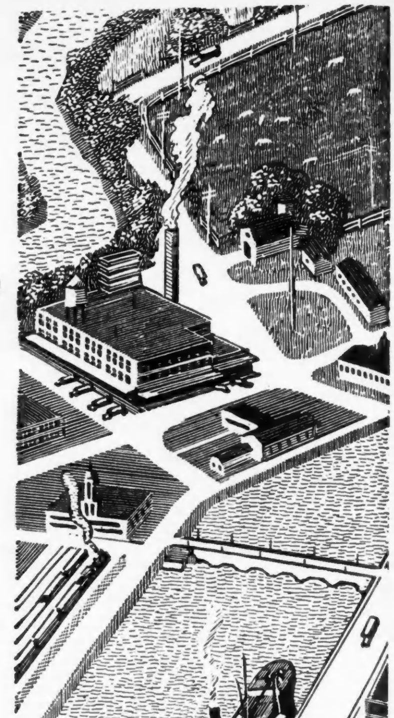
On a 10% credit for dividend income, the comparable gains in "take-home" dividend income become about 17% in the lowest bracket; 23% to 36% in the brackets $16,000 to $36,000; and 39% to 50% in joint-return brackets above $36,000 and up to $76,000. A 15% tax credit in the third year of the recommended change, would boost net realizable dividend income about 23% in the lowest tax bracket; 30% to 48% in the brackets $16,000 to $36,000; and 50% to 65% in the brackets over $36,000 and up to $76,000. In the top tax bracket, a 5% credit means a gain of about 75%

(Please turn to page 520)

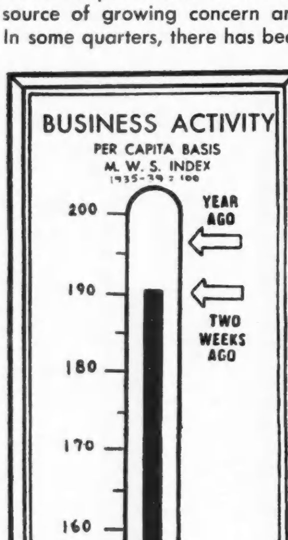
The Business Analyst

What's Ahead for Business?

By E. K. A.



The steady rise in the number of business failures and the even sharper increases in the liabilities of failures are the source of growing concern among thoughtful business men. In some quarters, there has been a tendency recently to "play down" the uptrends on the theory that, since the number of failures is below prewar, there isn't much reason for concern.



Consideration must be given to several factors, however, before treating the uptrends in business mortality thus cavalierly. For one thing, the rate of failures in the years prior to World War II was high since the Long Depression still was taking its toll. Secondly, if the rate of increase since last Summer continues for several months more, mortalities will be closely in line with prewar. Furthermore, the liabilities of business failures already are far above prewar, reflecting the inflation in the values of goods and services.

The index series on business mortalities and liabilities, unfortunately, are discontinuous owing to several revisions of the scope of coverage. But, it is possible, with only a minor amount of estimating, to bring the data for the period before World War II approximately in line with the current moderately larger coverage. During 1935-1939, the number of business failures averaged approximately $240 million annually.

During 1953, the number of failures totaled 8,900 according to preliminary returns or some 16 percent over 1952. By the end of 1953, the rate had increased to over 10,000 on an annual basis. Data for the latest week at the time of writing show an increase of 65 percent over a year earlier.

The liabilities of business failures in 1953 approximated $390 million, or 38 percent greater than in 1952 and 62 percent greater than the 1935-1939 average. In November, 1953, liabilities towards the end of 1953 were running slightly above the $450 million mark.

The National Bureau of Economic Research, in its analyses of statistical indicators of business trends, placed the liabilities of business failures as number one in its leading group on business recession and revival since this series has led more consistently and further ahead than any other series. It is interesting to note, in this connection, that the upturn in liabilities occurred in the early Fall of 1952, about nine months before industrial activity topped out in the late Spring of 1953.

Normally, there is a tendency for both failures and liabilities of failures to rise rather sharply during the early months of the year, although the extent of the seasonal rise cannot be determined with any great degree of exactness owing to wartime and postwar distortions of the data.

With the return of buyers' markets, competition is increasing and along with it the number of business casualties. This is not merely a matter of "separating the men from the boys" or eliminating comparative newcomers who did well during the early post-war years but who have little or no experience in operating under highly competitive conditions. In recent months, we have heard of a number of old line business organizations being forced to the wall.

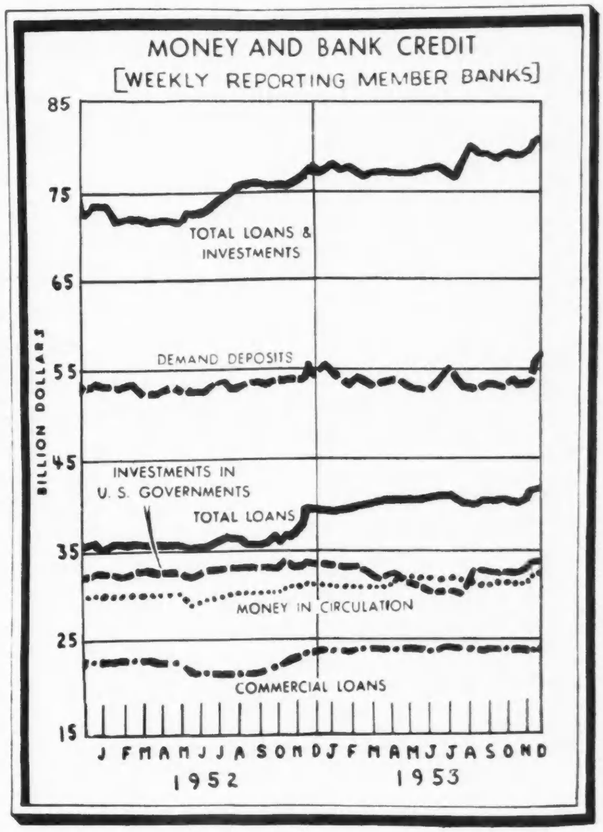
The sharp increases in the casualty and liability rates in construction and manufacturing, where the expansion since the end of the war has been greatest, are both interesting and disconcerting. Unquestionably, numerous individual companies in these fields have overexpanded in the expectation that the rising demands and easy selling of the earlier postwar years would continue indefinitely. The same applies, although to a lesser extent, in both wholesaling and retailing. Past performance, business men and investors are becoming aware, is not a reliable guide to continuing successful business operation in a rapidly shifting scene.

The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—Investors in high-grade bonds are regarding 1954 with a hopeful eye, reasonably certain that this year will provide a more stable market than did 1953 for this type of security. The first half of last year was marked by severe declines which were succeeded by equally large advances in the second half, so that by the year-end, the net change from the 1952 close proved to be small. This sequence of events was characteristic of both Government and corporate bonds. As an example, the Treasury's Victory 2½s, which ended 1952 at 95⅜, were down to 89¾ by June 2, last year's low. The turn-about from this nadir was rapid and by the year-end the issue had rallied 6¾ points from the low to close at 96½, a net gain of 1⅛ points from year-ago levels. Corporate bonds followed a similar course although their recovery was not quite as vigorous. Thus, the price decline of the first half-year raised the yield to a representative average of high-grade corporate obligations to a high of 3.44% from 1952's close of 2.99%. The price improvement since then has brought the yield down to 3.12% at the year-end, indicating that prices in this field on the average, are still somewhat under levels of a year ago.

The pattern of last year's price fluctuations were a faithful mirror of credit developments during 1953. When the new Administration took over it was intent on implementing a sound money policy and with the help of the Federal Reserve, steps to tighten credit were initiated early in the year. This development on top of large demands for money from all sources resulted in rising interest rates and falling bond prices. By June the market was near demoralization and there was danger that business would be adversely affected. By this time the monetary authorities had become convinced that the tight money policy could do more harm than good and a course towards easing credit was set. This decision has been reinforced by the downturn in business that became obvious after mid-year and the current outlook is for a continuation of this policy as long as business remains in the doldrums. In addition, the expected decline in demand for funds should make for a satisfactory bond market in coming months.



TRADE—Retail sales last month just about matched the high levels of a year ago and this brought total sales for 1953 to about $171 billion, a 4% gain over 1952 results. The new year has started off on a firm note, as clearance sales brought bargain hunters into the stores. Dun & Bradstreet estimates that dollar volume for the week ending Wednesday, January 6, was about 3% ahead of the corresponding 1953 week, with the best showing turned in by the Pacific Coast area which beat last year's figures by approximately 4%. However, retailers are keeping their fingers crossed concerning future results, realizing that the current downward trend of disposable income may well curtail consumer purchasing.

INDUSTRY—The National Association of Purchasing Agents reports that industrial output fell further in December and that new orders also were lower. However, the buyers sounded a more optimistic note in anticipating that the decline in output and new orders would halt during the first quarter. The Association noted that the inventory position of many manufacturers has improved of late and that the gap between orders and output has narrowed.

The Federal Reserve Board has brought its well-known index of industrial production up to date with a revision which includes better representation of new industries, revised weightings and seasonal adjustments and a new base period, namely the years 1947-1949, instead of 1935-1939, taken as 100. The new index will henceforth appear in our statistical section and should give a clearer picture of the course of industrial output.

COMMODITIES—Average primary market prices as measured by the index of the Bureau of Labor Statistics declined 0.2% in the week ending Tuesday, January 5, to close at 110.4% of the 1947-1949 average but was still 0.5% above January, 1953 levels.

The year 1953 was one of marked stability for the general run of commodities and the Bureau of Labor Statistics comprehensive index remained in a narrow range during the year. Prices held rather well during the latter part of 1953

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Nov.	3.7	3.9	3.6	1.6
Cumulative from mid-1940	Nov.	529.7	526.0	476.3	13.8
FEDERAL GROSS DEBT—$b	Jan. 8	275.0	275.2	267.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Dec. 30	56.2	55.7	54.6	26.1
Currency in Circulation	Jan. 6	30.6	31.0	30.2	10.7
BANK DEBTS—(rb3)**					
New York City—$b	Nov.	54.3	54.2	47.5	16.1
344 Other Centers—$b	Nov.	91.7	92.3	84.4	29.0
PERSONAL INCOME—$b (cd2)	Nov.	285	287	277	102
Salaries and Wages	Nov.	194	196	188	66
Proprietors' Incomes	Nov.	50	50	50	23
Interest and Dividends	Nov.	23	23	21	10
Transfer Payments	Nov.	14	15	13	3
(INCOME FROM AGRICULTURE)	Nov.	17	17	18	10
POPULATION—m (e) (cb)	Nov.	160.7	160.5	158.0	133.8
Non-Institutional, Age 14 & Over	Nov.	112.0	111.9	110.2	101.8
Civilian Labor Force	Nov.	63.4	63.4	63.6	55.6
unemployed	Nov.	1.4	1.2	1.4	3.8
Employed	Nov.	61.9	62.2	62.2	51.8
In Agriculture	Nov.	6.7	7.2	6.8	8.0
Non-Farm	Nov.	55.3	55.1	55.5	43.2
At Work	Nov.	60.2	60.6	60.5	43.8
Weekly Hours	Nov.	41.2	42.4	42.4	42.0
Man-Hours Weekly—b	Nov.	2.48	2.57	2.57	1.82
EMPLOYEES, Non-Farm—m (1b)	Nov.	49.2	49.6	49.3	37.5
Government	Nov.	6.7	6.7	6.7	4.8
Factory	Nov.	13.3	13.6	13.6	11.7
Weekly Hours	Nov.	39.9	40.3	41.1	40.4
Hourly Wage (cents)	Nov.	178.0	178.0	171.0	77.3
Weekly Wage ($)	Nov.	71.20	71.73	70.28	21.33
PRICES—Wholesale (lb2)	Jan. 5	110.4	110.6	109.9	66.9
Retail (cd)	Oct.	210.1	210.3	210.7	116.2
COST OF LIVING (lb2)	Nov.	115.0	115.4	114.3	65.9
Food	Nov.	112.0	113.6	115.0	64.9
Clothing	Nov.	105.5	105.5	105.2	59.5
Rent	Nov.	127.3	126.8	119.5	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Oct.	14.1	14.0	14.2	4.7
Durable Goods	Oct.	5.0	4.9	4.8	1.1
Non-Durable Goods	Oct.	9.1	9.1	9.4	3.6
Dep't Store Sales (mrb)	Oct.	0.83	0.81	0.87	0.34
Consumer Credit, End Mo. (rb)	Oct.	28.2	28.0	24.1	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Nov.	21.8	22.2	23.3	14.6
Durable Goods	Nov.	9.7	9.7	11.5	7.1
Non-Durable Goods	Nov.	12.1	12.5	11.7	7.5
Shipments—$b (cd)—Total**	Nov.	24.6	24.5	24.3	8.3
Durable Goods	Nov.	12.1	12.4	12.4	4.1
Non-Durable Goods	Nov.	12.5	12.6	11.9	4.2
BUSINESS INVENTORIES, End. Mo.**					
Total—$b (cd)	Oct.	79.0	79.3	74.2	28.6
Manufacturers'	Oct.	46.3	46.5	43.4	16.4
Wholesalers'	Oct.	10.7	10.6	10.1	4.1
Retailers'	Oct.	22.1	22.3	20.7	8.1
Dept. Store Stocks (mrb)	Oct.	2.5	2.5	2.4	1.1
BUSINESS ACTIVITY—1—pc	Jan. 2	191.8	190.9	196.4	141.8
(M. W. S.)—1—np	Jan. 2	235.7	234.6	237.4	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 507)

despite declining business activity. Thus the price index is at the same level now as it was in August, while industrial output, for example, has fallen about 3%.

* * *

Expenditures for **NEW CONSTRUCTION** came to a record $34.8 billion in 1953, biggest dollar volume in history and 6.8% ahead of 1952, the Commerce Department has reported. The year also set a new high in terms of the physical volume of construction which topped the previous year by about 5%. New private construction totalled $23.6 billion last year against $21.8 billion the previous year while public construction at $11.2 billion was 4% ahead of 1952. In the field of private construction the most notable gain was made by commercial building with a 58% increase over 1952, reflecting in part, removal of Governmental restrictions and easing of scarcities. Public utilities were also in the vanguard with a 10.9% year-to-year gain. The heartening factor in last year's construction developments was the fact that expenditures, after seasonal adjustments, showed a rising trend in late months, in contrast to business in general.

* * *

The **ELECTRICAL HOME APPLIANCE** and **RADIO-TV INDUSTRY** had a big year in 1953, according to a trade publication survey which estimates that total sales for the year amounted to $7.3 billion, an 18.4% increase over 1952 and only $79 million short of the all-time record set in 1950 when scare buying was a factor. Electrical appliance sales alone were $5.0 billion, a 20.2% increase over the preceding year while sales of television and radio sets rose 18.4% with a dollar volume of $2.3 billion. Among major appliances, room air conditioners achieved the fastest growth, one of 195%, with 1,075,000 units sold against 365,000 in 1952. The biggest year-to-year gain was made in the small appliance field where broiler sales increased 204%, to 1,320,000 units. Seven million television sets were sold last year with dollar volume at $2.0 billion, a 16% gain over 1952.

* * *

The financial condition of foreign countries continued to improve in the third quarter of 1952, according to **BALANCE OF PAYMENTS** data indicating that they added $740 million to their gold and dollar assets during the period. This was even better than the $400 million gain in the second quarter and continued the improvement which started in the second quarter

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	Nov.	130	132	133	93
Mining	Nov.	113	114	118	87
Durable Goods Mfr.	Nov.	147	151	151	99
Non-Durable Goods Mfr.	Nov.	116	117	118	89
CARLOADINGS—t—Total	Jan. 2	478	481	521	833
Misc. Freight	Jan. 2	252	249	299	379
Mdse. L. C. L.	Jan. 2	46	48	52	1,566
Grain	Jan. 2	31	30	36	43
ELEC. POWER Output (Kw.H.) m	Jan. 2	8,200	8,150	7,713	3,266
SOFT COAL, Prod. (st) m	Jan. 2	7.0	6.5	7.7	10.8
Cumulative from Jan. 1	Dec. 31	450.0	443.0	466.8	44.6
Stocks, End Mo.	Nov.	82.4	82.7	76.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Jan. 2	6.2	6.2	6.5	4.1
Gasoline Stocks	Jan. 2	160	156	137	86
Fuel Oil Stocks	Jan. 2	49	50	49	94
Heating Oil Stocks	Jan. 2	114	118	100	55
LUMBER, Prod.—(bd. ft.) m	Jan. 2	138	154	149	632
Stocks, End Mo. (bd. ft.) b	Nov.	8.8	8.6	8.3	7.9
STEEL INGOT PROD. (st) m	Nov.	8.7	9.5	9.4	7.0
Cumulative from Jan. 1	Nov.	103.7	95.0	83.4	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Jan. 7	226	153	185	94
Cumulative from Jan. 1	Jan. 7	226	15,171	185	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Dec. 31	186	145	131	165
Cigarettes, Domestic Sales—b	Oct.	35	34	37	17
Do., Cigars—m	Oct.	589	558	625	543
Do., Manufactured Tobacco (lbs.)m	Oct.	19	19	21	28

PRESENT POSITION AND OUTLOOK

of 1952. Since that time the gain in foreign gold and dollar holdings has amounted to $3.5 billion. The main factor in this gain has been the large grants by this country in the form of military goods and services, which in the latest quarter alone, amounted to $822 million. Most of the improvement in the foreign dollar position in the July-September period accrued to Continental Western Europe while there was a slowing in the rise of United Kingdom holdings of such assets.

* * *

Production of 5,531,385 **PASSENGER CAR TIRES** in November was 15.3% under the previous month's output, but production for the first eleven months of the year was still more than 8 million tires ahead of the corresponding 1952 period. Shipments by manufacturers in the January-November period were also at very high levels and topped the similar 1952 period by almost 10 million.

* * *

The **GAS UTILITY INDUSTRY** continued to grow during 1953 and sales for the year amounted to 56.9 billion therms, a new high, and 8.1% ahead of 1952 results. The industry spent about $1.2 billion for expansion during the year, to meet the growing demand.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

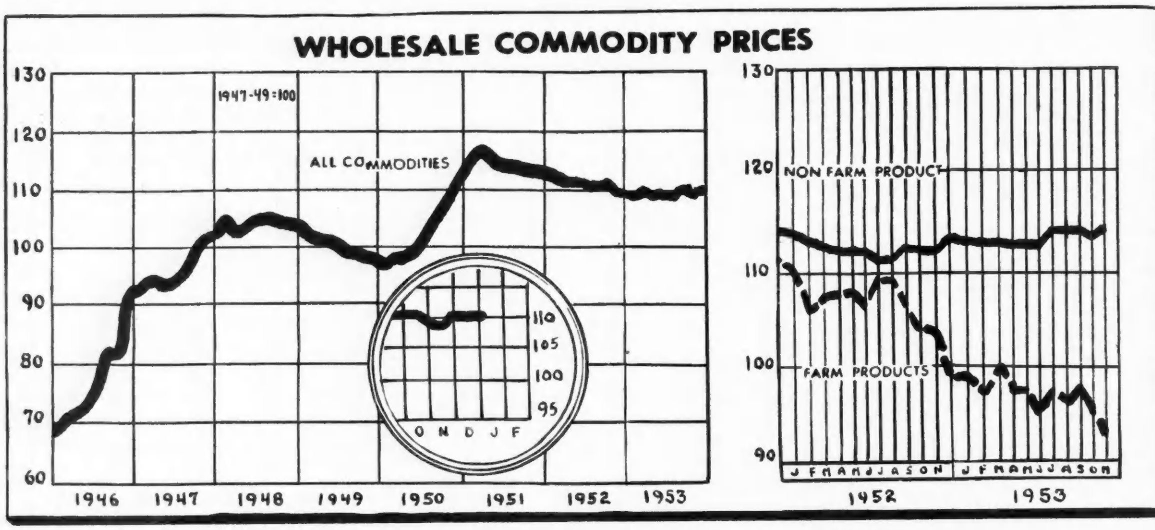
No. of Issues (1952 Cl.—100)	1953-'54 Range High	Low	1953 Dec. 31	1954 Jan. 8
300 COMBINED AVERAGE	215.5	177.2	188.0	192.8
4 Agricultural Implements	263.3	179.0	179.0	180.8
10 Aircraft ('27 Cl.—100)	415.6	330.3	408.5	404.4
7 Airlines ('27 Cl.—100)	693.9	492.6	492.6	512.3
7 Amusements	95.5	76.4	85.9	89.3
10 Automobile Accessories	189.4	213.8	232.0	241.3
10 Automobiles	49.4	39.0	40.4	42.4
3 Baking ('26 Cl.—100)	28.0	23.0	23.0	23.0
3 Business Machines	377.4	311.4	351.7	362.3
2 Bus Lines ('26 Cl.—100)	240.8	170.2	231.5	240.8A
6 Chemicals	396.9	337.9	369.3	369.3
3 Coal Mining	15.4	9.0	9.3	9.5
4 Communications	69.3	58.6	59.2	61.0
9 Construction	72.3	57.9	62.7	64.0
7 Containers	519.4	456.9	490.5	495.4
9 Copper & Brass	175.4	125.3	137.8	140.6
2 Dairy Products	105.1	82.3	104.1	105.1A
5 Department Stores	63.2	54.6	54.6	56.8
5 Drug & Toilet Articles	242.1	203.8	237.4	242.1A
2 Finance Companies	410.0	341.8	398.8	394.8
7 Food Brands	200.4	185.0	190.8	194.6
2 Food Stores	134.2	113.0	134.2	130.2
3 Furnishings	79.2	59.6	61.8	66.1
4 Gold Mining	760.0	502.3	502.3	542.5

(Nov. 14, 1936, Cl.—100)	High	Low	1953 Dec. 31	1954 Jan. 8
100 HIGH PRICED STOCKS	133.5	114.4	123.0	124.0
100 LOW PRICED STOCKS	260.5	203.7	214.9	225.0
4 Investment Trusts	112.7	93.1	97.5	99.5
3 Liquor ('27 Cl.—100)	967.8	811.1	857.2	865.8
11 Machinery	240.6	181.0	203.9	210.0
3 Mail Order	128.6	101.0	107.0	116.6
3 Meat Packing	101.7	78.7	85.7	87.4
10 Metals, Miscellaneous	284.5	198.4	201.0	215.1
4 Paper	474.8	394.9	461.4	466.0
24 Petroleum	463.4	376.5	404.0	412.1
22 Public Utilities	196.2	173.8	194.4	194.4
8 Radio & TV ('27 Cl.—100)	36.9	27.6	27.6	29.0
8 Railroad Equipment	64.1	49.1	50.3	52.8
20 Railroads	53.2	41.8	41.8	42.6
3 Realty	53.4	42.3	51.5	51.0
3 Shipbuilding	304.4	228.7	292.7	304.4A
3 Soft Drinks	407.5	339.0	380.1	391.5
11 Steel & Iron	151.4	122.8	129.9	133.8
3 Sugar	59.8	45.9	45.9	48.2
2 Sulphur	625.9	525.5	537.4	564.3
5 Textiles	162.2	101.3	101.3	102.3
3 Tires & Rubber	89.7	70.4	86.3	86.3
5 Tobacco	105.2	82.0	84.5	82.0Z
2 Variety Stores	319.5	288.8	288.8	294.6
16 Unclassified ('49 Cl.—100)	125.7	97.0	104.1	106.2

A—New High for 1953-'54. Z—New Low for 1953-'54.

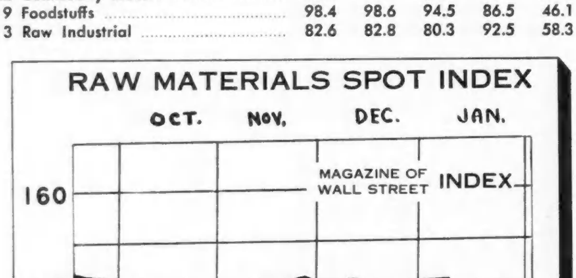
Trend of Commodities

Strength in futures prices has characterized the beginning of the new year and the Dow-Jones Commodity Futures Index gained 4.73 points in the two weeks ending January 11 to close at 170.81. Details of the President's farm program which were released during trading on January 11, contained few surprises and appeared to have little immediate effect on prices. Trends of grain futures have been mixed in the past two weeks, with wheat stronger, corn down and oats unchanged. May wheat gained 1¾ cents in the two weeks ending January 11 to close at 209⅜. Farmers have until the end of this month to place their wheat in Government loan and it seems apparent that they are taking advantage of this opportunity in a big way. Despite the large excess of wheat supplies over consumption, an artificially tight situation may be created by putting large amounts of the grain under Government control. May corn lost 1¾ cents in the period under review to close at 156¼. Sales of corn by farmers appear to be on the increase and Commodity Credit Corporation sales of corn in danger of spoilage, are expected to continue in good volume. There has been a somewhat better demand for cotton futures of late and the October option gained 26 points in the fortnight to close at 32.69 cents. Cotton consumption in both domestic and export channels still appears to be declining but as an offset, farmers are actively placing the staple in the CCC loan. There is a move in Congress to help the cotton planter by allowing higher acreage allotments and success of such a provision would mean a bigger 1954 crop.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

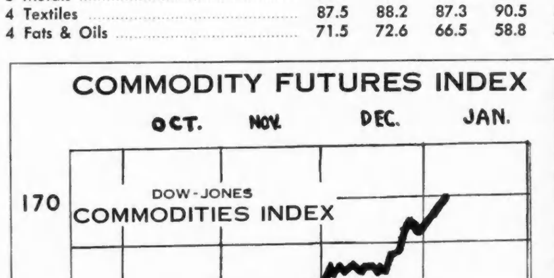
	Date Jan. 11	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	88.8	89.0	85.9	90.1	53.0
9 Foodstuffs	98.4	98.6	94.5	86.5	46.1
3 Raw Industrial	82.6	82.8	80.3	92.5	58.3
5 Metals	85.7	87.4	86.0	107.2	54.6
4 Textiles	87.5	88.2	87.3	90.5	56.3
4 Fats & Oils	71.5	72.6	66.5	58.8	55.6



14 Raw Materials, 1923-25 Averale equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	162.2	181.2	215.4	111.7	88.9	67.9	57.7	86.6
Low	147.9	160.0	176.4	98.6	58.2	48.9	47.3	54.6



Average 1924-26 equals 100

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	170.1	192.5	214.5	95.8	74.3	78.3	65.8	93.8
Low	153.8	168.3	174.8	83.6	58.7	61.6	57.5	64.7

Keeping Abreast of Industrial and Company News

Inspired by the Navy's experimental plane, the Skyray, **General Motors Corp.** has built and tested a gas turbine automobile that has the appearance of being an offspring of a land vehicle and an airplane. The aircraft motif is evident in the car's "needle" nose, its delta wings swept back along the rear half of the body, a vertical tail fin, and a plastic bubble over the driver's cockpit. Named the XP-21 Firebird, the car is purely an experiment for the purpose of studying possibilities of the gas turbine for commercial uses, being only a part of an overall General Motors research and engineering program to examine every known form of motive power. The Firebird has a "Whirlfire" engine developing 370-h.p., when the gasifier turbine is spinning at 266,000-rpm, and the power turbine is revolving at 13,000-rpm. The gasifier section provides a source of compressed hot gas, the energy from which is delivered by the power turbine to the car's rear wheels. The gasifier also replaces the engine and torque converter pump used in a conventional automobile, while the power turbine replaces the torque converter turbine, transmission and rear axle gears. The company states that it is not trying to develop either overwhelming horsepower or tremendous speeds in this test car. Its aim is to determine whether the turbine can be harnessed to give efficient and economical performance in the low and normal automotive driving ranges.

What is described as a powerful, self-contained "percolating coffee pot" atomic energy reactor for special nuclear research has been designed and built by **North American Aviation, Inc.**, for the Atomic Energy Commission. Developing 100 watts of power, the reactor is considered unique in that it is the largest of its type to operate with a reload cycle, or "self contained" system. The "coffee pot" or water boiler type reactor, in which the fissionable uranium compound is contained in a water solution, is designed so all radioactive by-products of the fission process are retained in the unit instead of being exhausted into the open air. Radioactive by-products are, by this method, processed inside the unit and returned to the reactor core. It is said that it is possible for the reactor to run for as long as 10 years without refueling, the fuel being uranyl sulfate, enriched in fissionable Uranium 235, in a water solution. Power ratings for water boiler research reactors are much lower than those for other types under development by North American for the production of civilian and industrial electric power. The company recently announced the design of an atomic pilot plant to produce 8 million watts of electric power, a first step in the development of larger reactors to produce several billion watts of power in the same category of present conventional fueled electric plants.

Because of steadily increasing needs of local and area industry for corrugated and solid fibre shipping boxes, Hinde & Dauche Paper Co., now a division of the **West Virginia Pulp & Paper Co.**, plans to expand its activity in the Kansas City, Kans., territory. The company has been operating a factory in Kansas City since 1926 when it acquired the Kansas City Fibre Box Co., and is now working out detail plans for the erection of a new plant on a 17-acre site, situated in the heart of the Fairfax industrial district, which it recently purchased.

A full-scale mockup of an "Airdock" which may revolutionize today's methods of loading and unloading aircraft is being built by **United Air Lines** at Denver's Stapleton Airfield where the company has its Operating Base. The mockup will include a mail, cargo and baggage work center; a set of aircraft cargo pits, a conveyor belt running between the work center and cargo pits; overwing fueling booms; airplane positioning rig, and a passenger bridge. The structure will be designed to accommodate **Consolidated Vultee's** Convair 340s, and **Douglas Aircraft's** DC-6s, DC-6Bs and the newest DC-7s. United Airlines believes that airlines must find faster, more efficient ways to board and deplane passengers and cargo at major terminals. Among the primary advantages seen by the company for the Airdock are the elimination of much of the mobile equipment now required in ramp servicing of aircraft; shelter passengers while boarding and deplaning, and, incidentally, eliminate loading stands. Also, transfer of mail, cargo and baggage would be speeded, and scheduled ground time reduced, thus increasing aircraft utilization.

The television camera has been turned into the eye of a simple computer to count microscopic particles such as blood cells, bacterial cultures or grains of photographic emulsion. The system was developed by **Radio Corporation of America's** electronic engineers working in close cooperation with the Sloan-Kettering Institute to provide an easy, rapid and accurate mass method of taking blood counts to detect the first signs of radiation sickness among persons in the target area of an atomic bomb. In addition to this possible emergency use, use of the equipment is foreseen in hospitals and research centers in performing, almost instantaneously and with a minimum of error, a process that has long been a laborious, time-consuming and often unprecise manual operation in laboratory work. During laboratory tests employing microscopic blood specimens, an operator with the device which is called the San-

guinometer, was able to make several counts of red cells in various regions of the specimen and average the results before a technician operating without the equipment could complete a single count.

Visitors at the National Association of Home Builders' Convention and Exposition held this month in Chicago saw two of the newest developments in the American homebuilding and equipment industries—a room air conditioner designed solely for casement windows and an air-cooled year-around home air conditioning system—both products of the Airtemp Division of the **Chrysler Corp.** The casement window room air conditioner, now in volume production is the first such unit designed especially for standard-size casement windows, and can be installed without window alterations. The air-cooled year-around home air conditioner has the advantage of space-saving compactness with the elimination of all water supply and piping problems.

"Sta-Clean," invented by scientists in the research laboratories of **Standard Oil Co. (Indiana),** is a furnace oil additive that exhaustive controlled field tests shows results beyond expectations in retarding fume and sediment formation and not only prevents clogging of burner filters and screens but cleans those already partly clogged. It is also said to protect storage tanks from rusting. The company has already adopted the use of "Sta-Clean" in its new Standard Furnace Oil which is offered at the same price at which it previously sold its trade-mark "Stanolex."

Production of a new and improved type of fertilizer has been started at the new $1 million New Albany, Ind., plant of **The Davison Chemical Corp.** The expanded and improved facilities that replace the old plant, will permit the manufacture of a granulated homogenous fertilizer, a product made by an exclusive Davison process. It is in the form of small granules and has the advantage of being dust-free, resisting caking in storage, and flowing freely through distributing machinery.

Figures compiled by the Administrator of Civil Aeronautics show that in three years the capacity of the domestic and international United States airlines has increased 42%. In the same period the number of planes increased 17%, or a total of 1,336 aircraft operated as of June 30, 1953, as compared with 1,142 three years earlier. Total capacity of U. S. Commercial air fleet is currently placed at one billion ton miles above the June, 1950, capacity. Today's planes, larger than earlier type ships, account for the big gain in lift capacity.

Imperial Oil, Ltd., has announced that it plans to replace most of its existing Imperoyal refinery near Halifax, Nova Scotia, with what the company considers will be the most modern plant of its kind in the world. The building program, entailing expenditures of from $25 million to $30 million, will result in a new plant with a capacity of 41,625 barrels daily, or almost double the 22,000 barrel capacity of the refinery now in operation. Construction is scheduled to start early in 1955, with completion in mid-year 1956.

Americans bought $4,368 million of "E" and "H" savings bonds last year—a seven year record—according to a Treasury report. The balance between purchases of these bonds and those "cashed" was in favor of the Government in the amount of $211 million.

A proposal for the merger of **Pacific Power & Light Co.,** and Mountain States Power Co., has been approved by the board of directors of each of these public utility companies. The plan provides for an exchange of stock by which owners of Mountain States' shares would become stockholders in Pacific Power & Light. Basis of the exchange would be 10 shares of Mountain States common for 9 shares of Pacific Power common, and two shares of Mountain States preferred, $50 par, for one share of $100 preferred of Pacific Power. Stockholders of both companies will vote on the proposal at special meetings scheduled for March 12. Approval of the merger will also have to be obtained from state and Federal regulatory commissions.

In acquiring the All Purpose Spreader Co., which will become an operating department of **Blaw-Knox Co.'s** equipment division, Blaw-Knox believes it has taken another step in its program to supply the full needs of highway construction contractors. The company expects to add several important lines to its asphalt and concrete road building equipment as a result of the acquisition.

Recent purchase by **Texas Gulf Suphur Co.** of 30 oil wells in the Spindletop Dome area does not, according to company officials, mean that Texas Gulf is entering the oil business in any significant way. They state the purchase was made largely to smooth out sulphur-producing problems in the area although the wells, with a 1953 production of around 50,000 barrels, will yield additional revenue to the company.

National Surety Corp., a wholly-owned subsidiary of the **C. I. T. Financial Corp.,** has been sold by the latter to the Fireman's Fund Insurance Group of San Francisco. In announcing the sale, C. I. T. states that National Surety has reached a point in its expansion which requires it to enter additional fields of insurance already well developed by other insurance companies, including Fireman's Fund Group. For National Surety to maintain its competitive position it would have been necessary, states C. I. T., to enter new fields of insurance requiring on C. I. T.'s part the investment, with little or no return for a considerable time, or a substantial amount of additional funds. The sale, it is said, will result in a further substantial profit to C.I.T. on its investment.

With the announcement of plans for a $4 million plant at Burlington, N. J., **Hercules Powder Co.** discloses its entry into the synthetic fiber field as a major supplier of one of the key raw materials used by this industry. The new plant, scheduled for completion in May, 1955, will have a capacity of 12 million pounds of dimethyl terephthalate (DMT) annually, for use in the manufacture of "Terylene," the British trade name of the polyester fiber developed in England. This is the second important new industrial field to be entered by Hercules Powder within a year. In 1953, it began construction of an $8 million plant at Gibbstown, N. J., for the production of phenol and acetone. This plant is expected to be in operation by autumn of 1954.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Seaboard Finance Company

"You recently had an article on the two giants in the finance field, C.I.T. Financial and Commercial Credit. I would appreciate it if you would report on Seaboard Finance, the fourth largest in the small loan field. Please furnish recent operating revenues, dividends and other pertinent data."
E. J., Ft. Lauderdale, Fla.

Seaboard Finanace Company's 26th year of operation, ended September 30, 1953, and this was the most active and profitable in its history, with volume of business, receivables outstanding and net income reaching new high levels.

Loans made and sales contracts purchased amounted to $210,833-052, an increase of $21,392,403, or 11.3%, over the preceding year's business.

Receivables outstanding on September 30, 1953, totalled $131,619,369, continuing the upward trend which has been interrupted in only two years of Seaboard's history. The increase over the $106,519,433 of receivables outstanding a year ago was 23.6%.

Consolidated net income in the 1953 fiscal year, after all charges including taxes, amounted to $4,-382,913, which was 30.5% greater than the preceding year's net of $3,359,750. Net income available for common stock, after preferred dividends, was equal to $2.37 a share on the 1,625,650 average number of common shares outstanding during the year, compared with $2.30 a share on the average of 1,250,781 shares outstanding in 1952.

On September 30 last, 274,021 common shares were reserved for conversion of convertible preferred issues, reducing the potential dilution of common share earnings of 15.2% compared with 38.7% a year earlier. As a result, any future increases in net income available for common stock will be reflected in per share earnings to a greater degree than in recent years.

It appears that the year 1954 may be a testing period for business, as inflation gives way to normal conditions in the national economy. A moderate increase in unemployment, should it occur, is not expected to materially affect Seaboard and similar lending organizations, since most individuals who are first to become unemployed are usually not regarded as good credit risks. The needs met by personal loan companies are diverse in nature and so receivables are expected to be maintained at high levels in 1954.

Seaboard has about 200 offices and the broad geographical coverage is a favorable factor.

Dividends at 45 cents quarterly are expected to be maintained.

Dresser Industries

"I have been a subscriber to your publication for the past five years and do not often have the occasion to write to your Personal Consultation Department. Please submit recent earnings of Dresser Industries, prospects for the company and dividend payments."
A. R., Portland, Oregon

Dresser Industries, a leading manufacturer of oil and gas field equipment and supplies reported for the 1953 fiscal year ended October 31, net earnings of about $5,125,000 on sales of approximately $129 million. These year-end figures are preliminary and subject to final audit. By comparison, operations during the 1952 fiscal year resulted in net earnings of $5,766,596 on sales of $127,356,277. On a per common share basis, earnings for 1953 amounted to about $3.80 in comparison with $4.28 during 1952.

In appraising the results of this year's operations, consideration should be given to the fact that sales and earnings during the first half of 1953 were considerably below that of the last half. Specifically, sales for the first six months totalled $59,378,716 and net earnings were $1,535,776. In the second half, sales increased to $69,600,000 and net earnings increased to $3,575,000.

The sharp improvement in earnings during the last half is attributable to several factors, the most important of which was the elimination of price controls. The fact that price controls, which were in effect during most of the first half of the fiscal year beginning November 1, 1952, made it impossible for the Dresser companies to adequately compensate for higher wage and material costs. Following the elimination of price controls, prices of many company products were increased and somewhat more normal profit margins were achieved. Operations during the last half also reflected the company's widespread program to improve operating efficiency. This particular program, which is by no means completed, can be expected to make an increasing contribution to earnings during coming months.

There was a significant im-

provement in Dresser's overall financial position during the year. Cash balances increased substantially to $11,500,000 in comparison with $7,844,087 a year ago, inventories were reduced somewhat, and there was an appreciable increase in the shareholders' equity. Expenditures for new plant and equipment were below last year's level, reflecting for the most part, near-completion of Dresser's aggressive post-war expansion program.

The overall economic climate is important to Dresser companies not only because a significant proportion of their sales go to a wide variety of general industrial markets, but also because changes in overall activity are ultimately reflected to some degree in oil and gas industry operations, which account for about three fourths of Dresser's sales.

Operations within the oil and gas industries will once again set new records in 1953. Drilling activities and the production, processing and consumption of oil and gas will exceed the levels of a year ago and there is good reason to look forward to 1954 with confidence. It is true, of course, that inventories of certain petroleum products, notably gasoline, are presently somewhat high and that, as a result, crude oil production in the U. S. has been cut back rather sharply from earlier levels. In this connection, it is important to remember the seasonal characteristics of petroleum consumption.

Dividend payments during the 1953 fiscal year aggregated $1.60 per common share and $3.75 per share on the preferred stock.

Canada Dry Ginger Ale

"I am interested in low priced stocks and therefore, would appreciate receiving recent data on Canada Dry Ginger Ale." *S. G., Hazleton, Pa.*

Canada Dry Ginger Ale and its subsidiaries reported a net income of $2,382,018 for the fiscal year ended September 30, 1953, equivalent after preferred stock dividends to $1.14 per common share. This compares with $2,301,691, or $1.10 per share in the previous year. Net sales were $66,496,447 compared with $66,503,941 a year ago.

The company reported gains in almost every phase of operations, particularly in the expansion of licensing activities. More than 60 additional license agreements were signed with U. S. and foreign bottlers during the year. Total sales would have established Canada Dry's 18th successive all-time high, except for a costly strike which closed the company's three New York plants for 11 weeks during the height of the summer season.

A very considerably rise was recorded in small bottle sales of ginger ale as a popular refreshment beverage, as well as in sales of Quinac quinine water. The wine and spirits department showed a small increase in sales, not including those of its new line of domestic whiskeys which were introduced after the end of the fiscal year.

The company plans experimental market tests of its soft drinks in cans, but its principal aim during the coming year will be to widen its distribution still further, through the acquisition of additional franchise bottlers.

The company is one of the most diversified of the soft drink producers. In addition, it manufactures or imports and distributes a selective line of alcoholic beverages, of which the most well-known is Johnny Walker Scotch.

Dividends in 1953 which included an extra totalled 70 cents per share.

Nash Kelvinator Corporation

"Please report Nash Kelvinator Corporation's post-war expansion expenditures and recent book value of the stock and also sales volume and earnings for the latest fiscal year."
C. S., Groton, Connecticut

Nash-Kelvinator Corporation has expended more than $160 million since World War II in improving its manufacturing facilities and products. Included in this total is an investment of more than $72 million in expanding and modernizing plant facilities and manufacturing equipment, and in subsidiary companies, expenditures of $27 million for engineering, and $61 million for tooling for new products.

Company sales in the 1953 fiscal year which ended September 30 totalled $478,697,891 compared with $358,400,502 in 1952. Net earnings were $14,123,026, or $3.25 per share, against $12,603,-701, or $2.90 per share in the previous year.

The corporation's equity in the undistributed earnings of five unconsolidated subsidiaries, not carried as an asset in the 1953 balance sheet, was $10,913,956, or $2.51 per share. Total book value of Nash Kelvinator stock on this basis was $32.24 on September 30, 1953.

Capital expenditures during the 1953 fiscal year were $21,673,951 compared with $30,847,580 in the previous year.

Net working capital was $67,-755,415 compared with $70,040,713 a year earlier. Property, plant and equipment, after accumulated depreciation, was carried at $66,103,039 at the close of the 1953 fiscal year, an increase of $6,981,679 for the year.

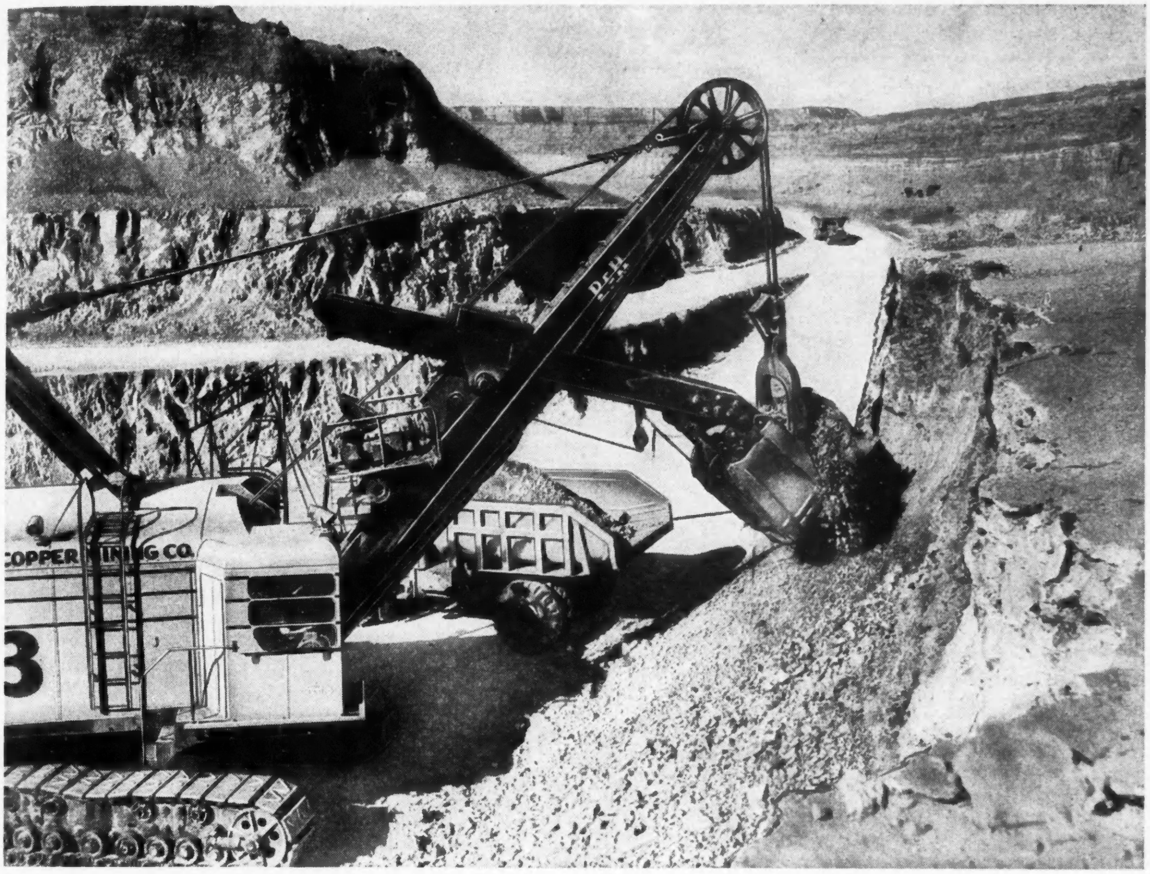
The following factors constitute the company's basic position in the automotive and appliance industries: Close control over manufacturing results from a high degree of integration of plant facilities; modern and well tooled plants, substantial earnings of subsidiary companies, which over the past eight years have paid dividends of $8,258,676 to Nash Kelvinator; outstanding automobile and appliance lines.

Nash automobile production in the 1953 fiscal year reached the third highest level in the corporation's history, with 166,918 cars produced. This was 21.3% ahead of 1952, and only 6% less than the record years 1950 and 1951. Nash plans to introduce in March an entirely new car, small and light in weight, and capable of up to 41 miles per gallon at normal highway speeds. This car will be the company's answer to the demand for a car that will provide maximum operating economy without sacrifice of the essentials of driving comfort, according to the company.

This action is typical of the efforts of the automobile and related companies to meet the new growing competitive conditions. Based on past experience in this industry, it would seem that results would depend on the effectiveness of the appeal to the public. This means a stepped up promotional program in which all units of the industry are joining.

Note: Just before press time, announcement was made that directors of Nash Kelvinator and Hudson Motor Car had voted approval of plan of consolidation of the two companies into American Motors Corp. Stockholders of the two companies will meet in March to vote on the proposed merger.

(*Please turn to page* 534)



An Expert Opinion of the Outlook for Oils

(*Continued from page* 493)

located abroad, although within the Western Hemisphere, currently providing a yield of close to 10% may serve as a good example. With the political climate seemingly in an improving trend, in the Eastern Hemisphere, at least at present, and with substantially higher returns indicated from operations in that area, at least until Iran re-enters the international market, an appraisal on the suggested basis would seem a reasonable assumption; obviously, the situation will bear a close watch and will be in need of constant and careful review.

Imports a Controversial Point

As imports have risen, both in volume and in percentage of total supply, they have become more and more the subject of debate. Domestic producers have come to regard imports as a real peril to the United States petroleum industry, while importing firms, principally the international companies, defend their position with the contention that imports are essential for national security. In this respect it is interesting to note that United States production, crude and condensate, currently amount to roughly 60% of world demand, while the U. S. proven reserves account for only about 30% of the entire world, exclusive of Russia and its satellites. From a strictly statistical point of view, however, the principal benefits from the imports into this country accrue to only a handful of companies, namely the five international operators. On the other hand, these imports, currently running in excess of 15% of domestic production vs. 13% a year ago and only 7% in the immediate postwar period, when exports as in prewar days were substantially higher, have resulted in a relatively sharp cutback in the allowable production rate in most producing states. But Texas, as the largest producer, accounting for roughly 45% of total United States production, quite evidently, has been hit the hardest. If carried much further it could exert certain hardships on some of the smaller producers. Little wonder then, that pressure is being brought on Congress and the Administration for import quotas on oil imports.

No doubt, with another possible world conflict in mind, the point has been made that in the interest of national security, the country's oil reserves should be conserved. Only time can prove this reasoning sound and much will depend on our ability to keep these sources, particularly the Middle East, from the enemies' grip. No doubt such reasoning is founded on the best of intentions and true patriotism. In time it may well prove to have been real foresight.

But as far as the domestic producers are concerned it misses the true economics of the exploration end of the petroleum business. It is much more costly to develop new reserves in this country where productivity is much below the major foreign operations. In the Middle East production averages about 5,000 barrels daily per well compared with 225 barrels daily in Venezuela and only 13 barrels a day in the United States. Moreover, aside from rising labor and material costs, the cost of finding oil has increased as a result of the necessity for deeper drilling and an increase in the number of dry holes. To illustrate this point, available statistics indicate an increase in the depth of the average domestic well drilled by 1,000 feet since prewar, or from around 3,100 feet of depth to slightly more than 4,000 feet today. The percentage of dry wells, relative to total wells drilled, during the same time span has risen from about 23% to 42% in 1952. In terms of actual dry holes this has meant an increase of about 200% or from 6,400 in the last prewar year to more than 19,000 in 1952. It is interesting to note, however, that despite this fact and also a steadily expanding output, domestic indicated oil reserves have shown a steady increase over the years; according to official sources from about 23.8 billion barrels in 1940 to an estimated 28 billion barrels at the end of 1952, not including approximately 5½ billion barrels of natural gas liquids which are used for blending and thus supplementing crude oil reserves by that amount.

What of the Future?

The problem of temporary oversupply is nothing new to the industry. True, in the past imports played a lesser part in the domestic oil supply picture than they do today, when they are blamed for contributing to the prevailing imbalance. Previously, expanding demand has always been able to straighten out such industry problems, as no doubt they will this time.

The Paley Commission report sets petroleum products demand in the United States at 13.7 million barrels a day by 1975. This would represent an increase of 72% over actual 1953 demand. Projected on an annual basis this would represent a yearly increase of around 3.5%. Judging by past experience this projection seems a reasonable estimate of future expectations and, consequently, is well within the realm of reality. On that assumption the future of the petroleum industry, indeed, looks bright. This suggests strongly that the growth of this industry has not yet spent itself; in fact, the future would seem to hold out equally interesting profit possibilities for this group, as has the past. If well selected, equities in this group may well continue to offer one of the most attractive investment media. Beyond 1975 they will become the problem of a new generation. If they do as well for them as they did for the present and past generations, history may well accord them first place in investment merit for consistent results over the longest span.

(*Please turn to page* 518)

Table D: Refiners' Margins and Crude Prices

	*Crude Price per bbl. (avg.) (36°-36.9° Mid-Cont.)	†Refiners Gross Margins per bbl.
1952	$ 2.57	$ 1.06
1951	2.57	1.13
1950	2.57	0.94
1949	2.57	0.79
1948	2.57	1.11
1947	1.90	0.99
1946	1.36	0.82
1945	1.17	0.87
1944	1.17	0.85
1943	1.17	0.78
1942	1.17	0.71
1941	1.12	0.71
1940	1.02	0.62
1939	1.02	0.67
1938	1.18	0.63
1937	1.21	0.85
1936	1.10	0.76
1935	1.00	0.68

*—Source: Oil and Gas Journal.
†—Source: Independent Petroleum Association of America; based on four principal products, weighted in 9 refinery mkts.

Pure Oil's "Sea-going" Wells

Increase Natural Gas Production

Drilling to a depth of over 2 miles beneath the Gulf of Mexico, offshore operations help raise Pure Oil gas production 66% in 3 years

Twelve thousand feet below the waters of the Gulf of Mexico, The Pure Oil Company is tapping rich pools of natural gas. The wells are drilled at different angles from central platforms, such as this one in the "Eugene Island" area more than nine miles from the Louisiana shore.

Last year, from these offshore wells alone, Pure Oil produced *29 billion cubic feet* of natural gas. In 1954, Pure Oil expects to boost this to over ***50 billion cubic feet.***

The Pure Oil Company pioneered in offshore drilling and, now that Federal restrictions have been released, will accelerate exploration and development activities along this new frontier of production.

Offshore operations have already contributed materially to Pure Oil's 66% increase in total natural gas production in the last three years. Continuing increases, at realistic prices, are significant in relation to the growing importance of natural gas as a source of fuel energy.

Continued progress—in every phase of petroleum production, refining, transportation, and marketing—keeps The Pure Oil Company moving ahead in the vanguard of a highly competitive business.

Be *sure* with Pure

THE PURE OIL COMPANY

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THE PURE OIL COMPANY, U.S.A.
PURE

An Expert Opinion of the Outlook for Oils

(*Continued from page* 516)

Beyond the horizon and, not an early threat to be sure, but something a realistic appraisal of the future surely must take into consideration, is nuclear power. There certainly are no indications at present that it will be cheap or competitive with other fuels. In fact current indications suggest strongly that it will find application in stationary installations, such as electric power generating stations, where the principal competition would be with coal. True, residual fuel competes with coal in this and other industrial uses. But the refinery yield of this product has, by preference, and with the help of technological progress —which has permitted the extraction of larger quantities and higher octane rated gasoline—been in a declining trend relative to total refined products. It is the least profitable item of all refined products. To compensate for the declining domestic production, but to satisfy industrial and shipping needs where, it is used for bunker fuel, much of the requirements are covered through imports from Venezuela. Incidentally, a substantial part of imports from that country are represented by this type oil, which actually supplements, rather than competes with, our domestic requirements for this product. Thus, atomic power appears of minor consequence to earnings of domestic oil companies at this time. Its significance as a factor will come much later.

Special Note

To familiarize the reader with our thinking as to classification of the individual companies a word of explanation may be in order. Since the various activities of oil operations are interdependent, the larger units in the industry are for the most part engaged in all branches of the business, from ownership of wells (production) to the ownership or control of gasoline stations (marketing) including of course refining and transportation. Such companies are commonly known as integrated. However, the relative importance of the predominant activity varies between companies, often times quite widely. For this reason the industry is broken down into groups, and companies placed where their major product emphasis lies, i.e. production or refining. Since, normally, the production end is the most desirable phase of the oil business, we have shown crude production as a percentage of refinery runs, based on 1952 experience.

In the case of international companies, the percentage shown apply to domestic operations only. Although some of their operations rank among the largest in the United States, they are carried under a separate caption since foreign earnings, believed more vulnerable, account for a substantial part of net income, in most cases one third or more.

The operating profit margins of crude producers, and to a large extent for producers on balance, represent the difference between posted prices for crude and production costs.

In the case of integrated companies profit margins are determined by the spread between sales value of refined products and the cost of production, including purchased crude.

Profit margins of refiners on balance are determined much the same as for integrated, except as the ratio of crude production declines, the purchase price for crude exerts an increasingly important influence on profits.

The profits of international companies are largely influenced by the same factors as those of other integrated companies, or refiners on balance, but foreign earnings, more particularly in recent years, have become an important determinant of overall earnings results.

What Is Needed To Make Low Money Rates Work

(*Continued from page* 483)

plant of the United States is reaching a point of over-capacity in many directions and that this cannot be stretched safely without thinning out available markets for the potential output. Lowering the rate of interest in order to expand already top-heavy facilities would merely aggravate the problem.

The second factor is that inventories are still too heavy and commodity prices too sluggish, after several years decline, to warrant excessive borrowing at low rates. It may well be that lower rates will come to pass in any case as a part of government policy but it is to be doubted that at this stage they could stimulate an improvement either in the inventory position or commodities, or both. Supplies being as large as they are, and demand not expanding, low interest rates could not be expected to supply the necessary leverage.

The third factor is that the public is fairly well stocked with goods and equipment used for domestic purposes so that the greater availability of credit, under a new government program, would not be so effective as imagined in producing the necessary stimulant. The exception, of course, is in low-cost and medium-cost housing where a greater supply of long-term credit at attractive rates undoubtedly would be a favorable factor but this is in an area in which there are still some substantial shortages.

Lower money rates will operate most effectively when the adjustment has run further and the base for replacement broadened but, in consideration of the ample supply situation, it does not appear that this position has been reached as yet. When it has been reached, there can be little doubt that prompt action by the government will produce the necessary results. Under these conditions, an increased supply of credit at low rates can have a predominant influence but only if supply and demand are in better balance than at present.

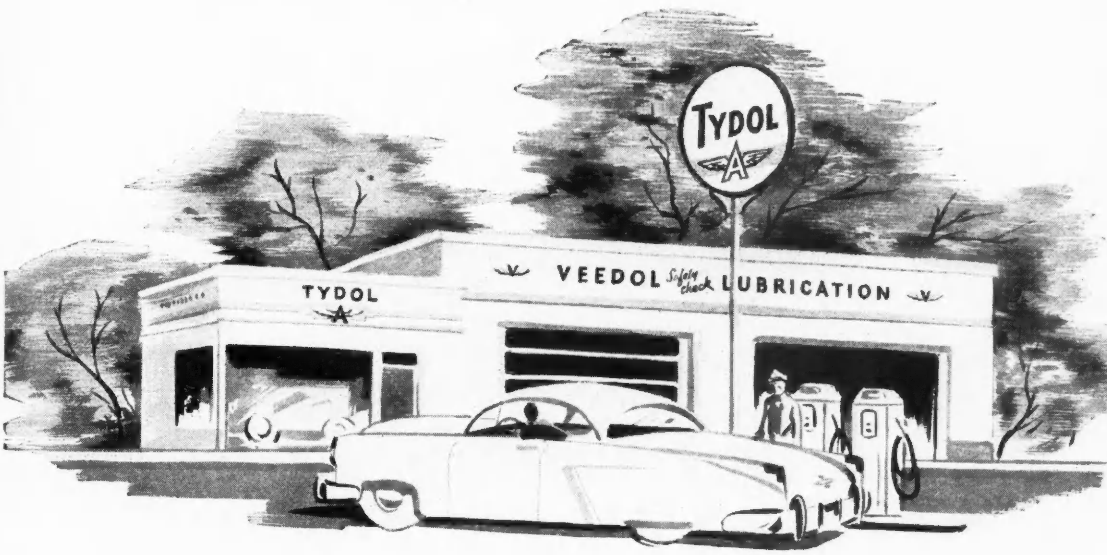
Bank Stock Outlook for 1954

(*Continued from page* 503)

New York City banks experienced some shrinkage last year in their total resources, whereas most of the "billion dollar" banks outside of New York had gains. The largest bank in the U. S.—Bank of America, with headquarters in San Francisco—had the largest gain, which amounted to $300 million and carried its total resources to a new high of $8,502 million. A majority of the out-of-town banks had increases. The same was true of total loans and discounts.

About half of the biggest banks last year raised their dividend rates, including extras, though they continued to move conservatively in that respect and still follow a policy of plowing back a

(*Please turn to page* 520)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Bank Stock Outlook for 1954

(*Continued from page* 518)

substantial share of earnings. This practice has further built up book values, which in most cases still rule above present market quotations. Current dividend yields average around 4.5%—about the same as a year ago, but slightly lower than at midsummer when the market was depressed.

The present bank position looking forward as well as backward reveals sound grounds for investor confidence in bank stocks. Steady progress in the past has done much to strengthen capital structures and to make current dividends secure, while the 1954 outlook is generally conceded to be for another good year. Although no great expansion is expected either in total loans or in government security holdings, neither is any great liquidation likely.

It cannot be denied that certain conditions this year may make peak bank earnings more difficult to maintain. Managements may have to stiffen their attitude toward operating costs and give more attention to economies. They may have to liberalize their views toward the acceptance of normal credit risks inherent in marginal borrowers, and not expect the abnormally low loss record of recent years to go on forever. Today, as in the past, when business constantly changes, the progressive banks also must modernize and improve their methods and the character of services offered. The latter will probably include more consumer financing, thrift deposits, special checking accounts, retail store charge accounts, drive-in offices, suburban branches, and, doubtless, other services not yet discovered.

Special Situations

Irving Trust Company of New York last year increased its total resources by $73 million, counter to the decreases experienced by the big New York banks generally. Operating earnings increased from $1.63 per share to $1.73. The dividend rate was raised from $1.10 to $1.30, which at the present price of around $23 yields 5.6% Irving Trust has shown steady progress during recent years and has built up large capital funds.

Bank of Manhattan Company is the only other big New York bank showing a gain, amounting to $47 million, in resources, counter to the general downward trend. One of the oldest banks in the U. S., it is following an aggressive policy of reaching the masses of the New York public through 55 branches. Last year it made increases in deposits, loans, and U. S. securities. Earnings increased from $2.52 to $2.70 per share, and the dividend rate was raised from $1.40 to $1.70.

The National Bank of Detroit, largest in that city and now ranking No. 13 among the country's commercial banks, had a gain last year of $79 million in resources—reflected by gains in deposits, loans, and government portfolio. Reported earnings were $3.41 per share, compared with $3.51 in 1952 (adjusted for a stock dividend paid in November 1953 following the cash sale of additional shares the month before). On the present cash dividend rate of $2.00 the yield is 4.5%.

Pittsburgh Plate Glass Co. — A Unique Study in Growth

(*Continued from page* 497)

of $2.25 a share, the full amount paid in 1953. At current price of around 52, the yield is 4.4%. This compares with similar yields on stocks comparable in quality so that so far as return on the investment is concerned, the stock is selling on about a par with stocks of its class. Obviously, the current levels of the stock indicate a fair amount of discounting for future prospects, having risen from a low of 42¾ in 1952. In view of the large, though now presumably diminished capital requirements and the increase in recent years of bank loans and debentures, it would not seem likely that any substantial increase in the dividend can be expected in the nearer-term future. On the other hand, the growth features of the company are so pronounced that current loans should not present too much of a problem in later years.

From the longer-range standpoint, the stock commends itself for investment. As suggested in the case of other stocks of this quality, "dollar averaging" might prove an acceptable method of investing in this issue. This could provide the investor with an opportunity to take advantage of any material declines in the stock that might occur from time to time, as a result of general market conditions.

For Profit & Income

(*Continued from page* 505)

in realizable dividend income over 1953, including the 10% income tax cut; a 10% credit means a gain of about 138%; a 15% credit, a gain of 200%. The latter figures have no practical meaning. Above the bracket of about $64,000-$76,000, tax-exempt bond interest would still retain advantage. However, for investors in the lower and up to the higher middle brackets, the proposed tax credits can mean wide boosts in realizable dividend income. This is something to watch. If Congress approves these changes, it could materially change the complexion of the market at least as regards both prime stocks and fair-grade dividend-paying secondary issues.

(*Please turn to page* 532)

Post-War Changes in World Production

(*Continuing from page* 489)

producing enough food and hence that the problem is not that of overproduction, but of distribution—of finding means and dollars for distributing existing surpluses.

Much the same situation exists in fuels and raw materials also. The 1953 free world output in most energy fuels and raw materials was the largest on record. Take, for example, electricity, the output of which in 1953 was some 250 per cent above 1937. In 1953 the 160 million people inhabiting these United States produced and consumed something like 510 billion kilowatt hours of electricity. At the same time, some 1,600 million people inhabiting the rest of the free world consumed about 650 billion kilowatt-hours of electric current; at that their production has more than doubled over the past 15 years. On the per capita basis, these countries are at one-eighth of what we consume. What a splendid opportunity there is here for raising living standards, for the building of hydro-electric power plants, using

(*Please turn to page* 522)

Changes in World Production

(*Continued from page* 520)

the water ultimately for irrigation and other purposes. What opportunities for the expansion of the production of electrical equipment!

As will be seen from the accompanying table, much the same is true of the production of steel, cement, copper, aluminum and other products. We still account for more than half of the world output of steel, despite the fact that Western Europe has made substantial increases in its production. Here again the per capita production and consumption is but a fraction of the steel produced and consumed in the United States. If, as most of our economists believe, there is opportunity for expanding the already high per capital consumption of almost any major commodity in the United States, what chances are there to expand the consumption of the same goods abroad! Germany, which put its currency in order in 1948 and has stuck by the free enterprise system since, has shown that this is quite possible. In 1948 the German per capita consumption of food, raw materials and manufactures was one of the lowest in Western Europe. It is now edging up to the levels of Belgium and prosperous Switzerland and German purchases of coffee, sugar, wool, cotton, newsprint, and other products are contributing a great deal toward stabilizing the prices of these commodities.

Clearly, the world is in no danger of overproducing food or power fuels or raw materials, certainly none in manufactured products. The problem is how to distribute the unsaleable surpluses and how to increase productivity of the people so that they could buy more goods. This does not mean that the free world should aim at the false standards of Hollywood's nouveau riche. The problem is how to make life more bearable for the Sicilian paysano, the Egyptian fellahin and the Indian ryot. By doing so, the free world could easily dispose of all surpluses that it is in danger of accumulating during the process of shifting to a more normal economy and at the same time could prevent a drift toward communism which is sure to take hold in countries when business paralysis sets in.

Cement Industry Faces Favorable New Year

(*Continued from page* 500)

yield is 6.0%.

Penn-Dixie Cement Corp.: This company, with eight plants having a combined capacity of 11.3 million barrels annually, has spent close to $16 million in the last eight years for expansion and plant improvements. Increased production and higher operating efficiency is reflected in record sales for the first nine months of $21.1 million, and aided by high portland cement prices in effect since last April, net income for the period increased to $4.25 a share. On the basis of this showing, it appears conservative to estimate final year's net of somewhere around $5.50 a share, after allowing about 90 cents a share for the now non-existent EPT. The company raised its quarterly dividend to 50 cents a share last August and paid a year-end extra of a similar amount putting the stock on a $2.50 a share annual dividend rate. The strong finances, as shown in the Sept. 30, 1953, balance sheet, consisted of current assets amounting to $12.9 million of which $6.7 million, or more than 50% of the total, was in cash which alone exceeded $5.9 million total current liabilities. This strong position together with the fact that there is only $2.1 million in notes payable ahead of the small amount of stock outstanding (602,136 shares) justifies the belief that a more liberal dividend rate will be established in the not-distant future. On the basis of annual dividend of $2.50 a share, the stock at current price around 38¼, yields 6.5%.

1954 Prospects for Leading Industries

(*Continued from page* 480)

also develop, particularly if there should be a pronounced break in the price of copper, with which aluminum is in direct competition in many markets. As with copper, however, aluminum manufacturers are deep in the excess profits bracket, and any narrowing in their margins should be more than offset by the expiration of EPT. Earnings for the industry as a whole are likely to be moderately in excess of their 1953 rate, at least in the first half of 1954.

For other nonferrous metals, notably lead and zinc, the earnings outlook is much less favorable. Prices have been seriously deflated, and while a further decline of any importance is no longer likely, prices as the year begins are substantially below the beginning of 1953. Falling prices have also curtained production of both these metals.

Declining demand for original-equipment auto batteries (a major part of the lead market) and for farm specialties and engineering dies (which absorb a large part of zinc production) do not suggest any near-term recovery. Companies in these industries have dropped out of the excess profits bracket in late 1953, and expiration of the tax will provide little or no offset to declines in production.

AIRCRAFT MANUFACTURING —Approximately 80% of U.S. aircraft production now goes into the defense effort, either domestically or for Mutual Security export. The outlook for aircraft manufacturing in 1954 is, of course, dominated by considerations of defense.

As of now, production of military craft are expected to maintain a rate of about 1,000 per month throughout the calendar year 1954, but increasing proportions of heavier types will probably increase tonnage airframe deliveries. At the same time, there have been cutbacks in the proportionate rate of deliveries of spare engines and other parts, reflecting both more favorable lifespans of engines than had been expected. and lower mortality owing to a cessation of hostilities in Korea. Total aircraft and parts deliveries (in dollars) by prime contractors in 1954 are likely to about equal the 1953 rate. Deliveries of civil aircraft in 1953 have run considerably ahead of 1952, and a further moderate gain in 1954 is likely. In the last half of 1953, aircraft exports (of civilian craft) have run somewhat ahead of 1952, and here too some further gain can be expected.

Aircraft manufacturers and

(*Please turn to page* 524)

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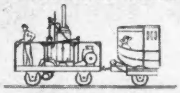

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1954 Prospects for Leading Industries

(*Continued from page* 522)

their sub-contractors are, of course, substantially into the excess profits bracket. While renegotiation procedures will probably recapture a considerable part of the earnings now taken by the EPT, primary aircraft producers stand to increase earnings appreciably in 1954. Sub-contractors, on the other hand, have already felt the effects of future cutbacks in defense expenditures, as the major contractors, whose capacity is now greatly expanded, have found themselves increasingly able to fulfill their contract delivery specifications without recourse to sub-contracting. Narrowing of the defense base—that is, concentration of production in the hands of relatively few producers in order to achieve the economies of mass effort—has already resulted in a sharp falling off of aircraft backlogs among a large number of sub-contracting companies. Cancellations, particularly of major components such as engines, are causing the total military aircraft backlog, now estimated at about $20 billion, to fall by several billion in the last half of 1953.

The profits outlook for the aircraft industry thus requires drawing a distinction between the prime contractors, which still maintain a substantial volume of defense business, and sub-contractors, whose business has been reduced. For the prime contractors, 1954 should see a marked expansion in earnings from defense business; for the others, the year seems to hold a contraction in defense earnings, and a renewed dependence on their regular civilian production items.

AIR TRANSPORT—In 1953, scheduled airlines flew approximately 14.5 billion passenger miles, as compared with about 12.2 billion in 1952. Express and freight-ton-miles flown rose from about 157 million to about 175 million. And this, of course, fails to cover the more striking increases, at least in passenger travel, achieved by the rapidly growing non-scheduled airlines.

Despite steadily rising costs and little change in fare schedules, the rise in volume of traffic has given the airlines a year of relatively high profits. The increase in volume in 1953 provided a high "load factor"—the volume of available passenger or freight space actually loaded—which is a major key to airline profits. Further moderate improvement in total revenue miles for both passenger and freight traffic appears likely in 1954, and a commensurate improvement in earnings. It is also possible that 1954 will mark the beginning of a noteworthy downtrend in the industry's fuel costs, reflecting the abundance of premium fuel for internal combustion engines, and the abundance of crude oil from which to refine it.

MERCHANDISING—The outlook for aggregate profits of merchandising companies in 1954 suggest a moderate squeeze between rising costs, on the one hand, and falling sales and gross margins. However, the bulk of decline in sales in 1954 is expected to be in durable lines, and large merchandising companies (other than the mail-order houses) do only a small volume in durables.

Total retail trade in 1953 amounted to about $171 billion, of which $61 billion was in durables lines. Of this $61 billion, about $34 billion represented sales of automotive dealers, and the remainder sales of furniture, appliance, jewelry and building materials dealers. It is in this area that the 1954 decline in trade is expected to be most intense: the $110 billion of trade done in food and general merchandise stores and in gasoline service stations, is likely to be affected only negligibly, with the one major exception of catalogue sales by mail-order houses. Sales prospects for the large department, apparel and variety stores are for only a shallow drop below the successful performances of the first half of 1953, and their annual volume is not expected to be markedly below the $10.5 billion done in 1953. Similarly, variety stores should come close to equaling the $3.2 billion volume of 1953.

Mail order houses suffer from two disadvantages which the department and variety stores escape: a considerable volume of heir business is done in durables and on credit; and a large part of their market is in agricultural areas, where incomes over the past two years have shrunk rather markedly. Catalogue sales of mail-order chains in 1953 amounted to about $1.3 billion, but toward the close of the year the rate of sales had already subsided to about $1.1 billion. A decline of as much as 10% in total catalogue sales in 1954, as compared with 1953, is not unlikely. Companies which have aggressively expanded their number of store outlets will, of course, be in a position to cancel out the prospective decline in catalogue sales by a gain in store sales.

(For more detailed analysis of the outlook for merchandising companies, see "Earning-Dividends Outlooks for Chain Store Stocks", in the December 12, 1953 issue.)

PAPER INDUSTRY—The paper industry chalked up an excellent production and earnings record in 1953. On average, net after taxes increased by about 10% over 1952, and tonnage production by about 6%. The production outlook for 1954 is somewhat less favorable, however, particularly for paperboard, which accounts, on a tonnage basis, for roughly half of all industry production.

Output of paperboard was exceedingly well maintained during 1953. During the early part of the year, user inventories of board were rising very slowly, as intense demand on the part of suppliers almost absorbed the record supplies. By year-end, however, there were indications that the softening of industrial shipments had cut materially into board use, and inventories of users and distributors were growing sharply. Some reduction in board demand appears likely in the first half of 1954.

Production and orders of fine and printing papers likewise set a record in 1953, and no serious decline appears at all likely in the first half of 1954. Stocks at year-end were somewhat higher than the end of 1952, but demand has continued firm, and magazine use (the major market for printing paper) is expected to run several percentage points higher in early 1954 than in 1953, as advertisers expand budgets for the competitive year ahead.

Paper prices were rising during the last quarter of 1953, and go into the new year almost 2% above their 1953 average, which should benefit margins in the first half of 1954. Moreover, many segments of the market continue to show moderate secular growth—multiwall sacks, for one example. Finally, the industry in 1953 was

(*Please turn to page* 526)

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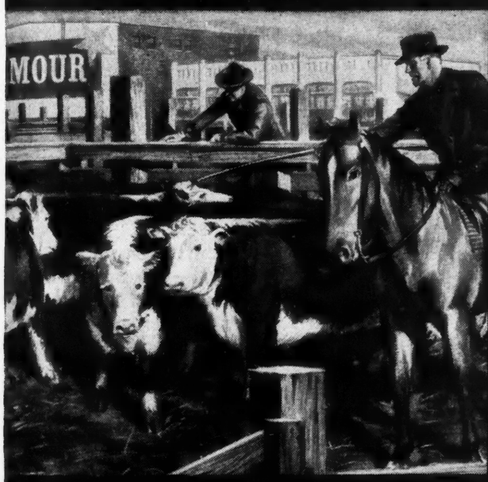

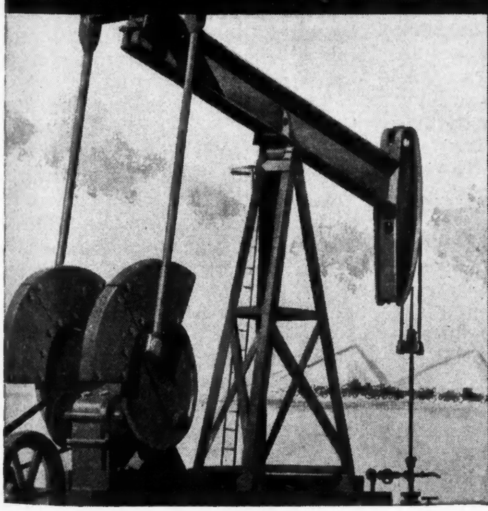

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1954 Prospects for Leading Industries

(*Continued from page* 524)

moderately into the excess profits tax bracket, with an effective tax rate of about 60%. Elimination of the tax assures a relatively favorable earnings performance in this increasingly competitive but fundamentally stable industry. (For more detailed analysis of the 1954 outlook for the paper industry and individual companies in the industry, see "Can Pace Be Maintained by Paper Companies?", in the December 26 issue.)

TEXTILE INDUSTRY—The year 1953 started with prognostications of a boom in the textile and apparel industries. In mid-year, the boom prospect faded. The last half of 1953 saw sharp output cutbacks, extremely competitive pricing, and seriously impaired earnings records.

Cotton prices, after their sharp breaks of late 1952, actually trended irregularly upward in the first three quarters of 1953, flattening out as the year ended. But cotton mill margins at year-end were running roughly 10% below a year ago (and margins in 1952 were not particularly favorable). Cotton consumption and spindle activity were running moderately below 1952 at year-end, and rayon production and shipments were substantially depressed.

With the one exception of children's clothing, the last half of 1953 was a disappointment to apparel cutters and retailers alike. Apparel trade in the summer and early fall was retarded by unseasonably warm weather, and, possibly, by the violent competition among durables makers for shares of the consumers' dollar, resulting in repayment obligations on consumer debt amounting to 11% of current incomes. Stocks had been built on anticipation of an excellent season and, as a result, inventory-sales ratios in apparel lines soared impressively in the third quarter of the year. In the past few months, the volume of apparel sales has stopped declining, and all segments of the industry have entered on a rapid and severe inventory adjustment. The industry's rate of expansion of facilities has also slowed further, with expenditures in early 1954 running at the lowest level since Korea.

The apparel segment of the industry actually expects an excellent spring season, and buyer arrivals in New York in recent weeks support this contention. Retailers argue, with some merit, that retail trade in apparel has been abnormally low, and that a recovery in demand is very likely in the spring of 1954. On the other hand, declining activity in heavy industries, and the loss of overtime payments is likely to curtail the flow of personal income.

On balance, the outlook for total apparel trade is thus about unchanged. The industry did not share in the durables boom of 1953, but it is not likely to be hit as hard by the decline of the first half of 1954. Earnings should be approximately unchanged from current levels, or slightly improved.

TOBACCO—In 1953 the tobacco industry suffered a small decline in total consumption in the form of cigarettes. This is noteworthy not so much for the size of the decline, which amounted to only about 3%, but because it was the first instance of such a decline since the Great Depression. Tax withdrawals of cigarettes amounted to about 385 billion, compared with about 395 billion in the preceding year. Cigar consumption, as measured by tax withdrawals, appeared to be about unchanged at 6 billion.

Profits of tobacco products manufacturers benefited, during 1953, from an increase of about $.40 per thousand cigarettes after the expiration of price controls in March. They also benefited from the introduction and/or increased market penetration of a number of new filter-type brands, on which profit margins are considerably larger. The industry's profits, despite the minor reduction in total cigarette consumption, ran as much as twenty percent above 1952, and typical tax rates in the industry for 1953 as a whole were between 60% and 65%—substantially in the excess profits bracket.

Tobacco share prices have recently suffered seriously under the impact of news reports relating cigarette smoking to lung cancer. There is no indication as yet, however, that a decline in cigarette smoking more serious than the decline in 1952 is at all in the offing. Even if a somewhat steeper decline were to occur, the gradual shift of the industry into higher-margin filter-tips, and the expiration of the excess profits tax, seem to provide assurances of continued high earnings in 1954. (This industry was covered comprehensively in the December 26 issue.)

LIQUOR—Retail liquor sales in 1953, including only over-the-counter bottle sales, amounted to about $3.3 billion, roughly 5% above 1952. On-premises consumption, however, evidently rose considerably. Total production of whisky, for example, increased from about 70 million gallons in 1952 to over 90 million in 1953, but stocks at the end of 1953 were in fact slightly lower than at the end of 1952. Production of fermented malt liquors increased from about 90 million barrels to about 95 million.

No further gain in volume is expected in 1954; and it is possible that volume will decline slightly unless there is a major revision of steep excises now applying to liquor sales. (At present, there is little likelihood that the excise will be reduced sufficiently, and in sufficient time, to alter the 1954 sales outlook.)

Costs of the distilling industry are not expected to decline in 1953 (they have declined moderately in recent years, reflecting the decline in grain prices), and manufacturing margins in the industry are likely to be somewhat narrower than in the past two years. It is also likely that advertising outlays will be expanded by most producers in an effort to expand shares of a stable or contracting market. Packaging, distribution and general labor costs are expected to be moderately higher. During 1953, wage rates in the industry increased considerably faster than the average for all industries.

The industry is not substantially in the excess profits bracket, although for a few producers expiration of EPT will mean a moderate cushion. On balance, the earnings outlook for the industry does not appear to indicate that a sharp recovery is near at hand.

SHIPPING AND SHIPBUILDING — Both American shipping and shipbuilding are in a decidedly unenviable position nor, barring a miracle, is much of a change for the better seen ahead for 1954 though, it must be admitted, conditions seemingly could not get much worse than they are. In shipbuilding, the outlook is in-

(*Please turn to page* 528)

1954 Prospects for Leading Industries

(*Continued from page* 526)

dicated by the fact that of the 52 ships being completed or on order (with 9 finished at the end of 1953) 40 will be completed in 1954, and only 3 will be built in 1955 unless new orders materialize. A partial offset is the Navy Department program for building 11 combat vessels and some smaller craft in private yards. This will help to keep these establishments going but those that fail to get the orders will probably have to shut down by the end of 1954.

Conditions in the shipping industry are illustrated by the fact that an increasing number of lines want to come in under the subsidy umbrella. Fifteen companies are now recipients of subsidies. Three factors are principally responsible for the dismal position of the industry: (1) smaller foreign shipments on the Atlantic run; a drop in Pacific shipments after the Korean truce, and intense competition from foreign bottoms, the latter increasing markedly. The disadvantage of United States ships as against those of foreign origin can be seen from a comparison of wage rates for seamen, with the American industry paying from 100% to 400% more than their foreign competitors. Some American operators are endeavoring to escape the dilemma of high costs by placing their ships under foreign registry.

With the exception of American Export Lines, which has been favored by trade with the Mediterranean, the Near East and India, earnings for the major shipping companies have declined drastically in the past year. As a result, the financial position of the lines has weakened so that some have been forced to go to the banks to meet operating expenses. On the other hand, the $79 million due on ship subsidy payments is now in process of being liquidated by the government. Receipt of these funds, in due course, will undoubtedly help to lift existing financial pressure. Even making full allowance for this factor, basic conditions in shipping do not augur much of an improvement in 1954.

MACHINE TOOLS – Total new business in the machine tool industry subsided rapidly in the latter half of 1953, in spite of the loosening of regulations governing the acceptance of non-rated civilian orders. The industry's backlog, once a formidable protection against a near-term decline in shipments, has been reduced sharply to about seven months of shipments at current rates, as compared to about twenty months at the post-Korean peak. Overtime in the industry has virtually disappeared, and open space has appeared on production books for 1954.

Forecasting the sales volume of the industry in early 1954 is hazardous, because much depends on (a) the course of defense spending and defense tooling requirements and (b) the final disposition of tools in "phased out" defense plants, which are reported to be worth one-half the annual production rate of the industry. Present indications are that the government will hold these tools in a defense reserve rather than dumping them on the market, a procedure that almost bankrupted the industry in the years after World War II.

Nevertheless, some cutback in the operating rate of the industry has already occurred, and by all indications sales volume in the first half of 1954 will fall considerably below the first half of 1953 —perhaps as much as 20% below. Selling in the industry is reported to be highly competitive, both because of slackened domestic demand and intensified competition in the world market from England, West Germany and Italy.

Some additional stimulus to the industry's order volume is expected to appear when the full brunt of competition hits general business in 1954, at which time considerations of operating economy may be reflected in increased machinery orders. Intense competition in the auto industry, in particular, is expected to generate a steady flow of new business. Any amelioration of depreciation rates – several proposals are being examined by Congress—would also benefit the industry. While expiration of EPT will provide a cushion, the general outlook for this highly cyclical industry is for a substantial reduction in shipments, and some decline in net incomes during the first half of 1954.

MEAT PACKING—A special review of this industry will appear in our next issue.

PETROLEUM—This industry is separately covered, in great detail, on pages 490-493.

Realistic Appraisal of the President's Program

(*Continued from page* 477)

be heard in the halls of congress, transmitted by mail and telegrams. His fireside chat had said little. It wasn't intended to. It served its purpose: to bring Ike back into the living rooms of the nation; plant advance promotion for what was to come Jan. 7.

He was telling industry, not especially the assembled congressmen, that a more realistic plant expansion and stockpiling for defense is needed, and that 1,000 major items have been catalogued as necessaries. The Defense Department now knows what it needs. He was saying to that part of the audience that there must be stand-by to make speedy conversion possible when the need may arise. He was recognizing that the tax laws must be drawn in a manner which encourages industry to expand, to plow back profits, to invest without taking unreasonable risk—and, importantly, to be able to hold onto something to invest.

Neither public power nor privately-owned installations was given the nod over the other. "The federal government," said the President, "will continue to construct and operate economically sound flood control, power, irrigation and water supply projects wherever these projects are beyond the capacity of local initiative, public or private, and consistent with the needs of the whole nation." That is exactly the platform of private power companies but it doesn't foreclose public power where the need arises.

Business hardly was taken by surprise when the Chief Executive called for continuation of the 52 per cent corporation income tax for another year. He's been stressing that need right along. Extension of the Renegotiation Act of 1951 likewise was expected by industries holding defense contracts.

With a farm message just around the corner, agriculture wasn't simply told to sit back and wait. Some direct talk was beamed to the nation's breadbasket. The farmers were told they're overproducing and that they have the alternative of regimentation from Washington (strict acreage allot-

(*Please turn to page* 530)

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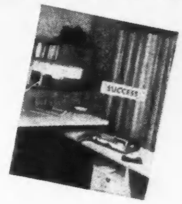

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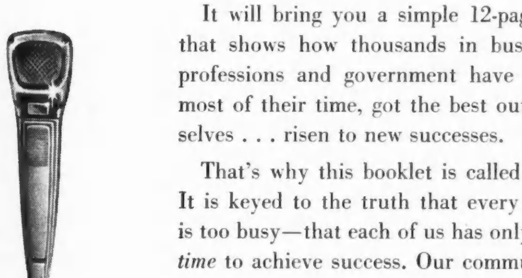

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Realistic Appraisal of the President's Program

(*Continued from page* 528)

ments and policing), or giving more dependence to the law of supply and demand. President Eisenhower rejected the first of these alternatives, but didn't leave the farm belt to work out its own salvation unaided. He sketched a picture of crop production to meet current needs with prices free of the depressing effects of ever-mounting surplus – the surplus would be "insulated" by diverting it from the marketplace, to school lunch programs, disaster relief, emergency assistance to foreign friends, stockpiling for national emergency. The agricultural laws of 1948 and 1949 were not consigned to the junkyard merely because a democrattic administration had drafted them; they will be retained, the President reassured, and built upon. To agriculture went this assurance: "Transition to modernized parity must be accomplished gradually. In no case should there be an abrupt downward change in the dollar level or in the percentage level of price supports."

To taxpayers generally: a budgetary saving of $5 billion this year, and a $7 billion next year—$12 billion in a space of two fiscal years; a budget more close to balance and continuing to move in that direction; lower taxes in effect now than in previous year, with still more reductions to flow from continuing economies; the people were told to wait, briefly, for the budget message and its 25 proposals for tax reforms; to those whose interests and investments are in small business, more equitable treatment was promised, and burdens lightened; "for the business that wants to expand or modernize its plant, we propose tax treatment of depreciation, research and development expenses, and retained earnings."

Veterans were promised the benefits of a reorganization of the U. S. Veterans Administration. Organizations representing 20 million vets have been calling for this.

To those whose interest is the business of providing dwellings, went a message that the Housing Act of 1949 will remain operative until improvements in it are developed. They were put on notice that a Jan. 25 report will detail these points: Modernization of the home mortgage insurance program of the Federal Government; redirection of the present system of loans and grants-in-aid to cities for slum clearance and redevelopment; extension of the advantages of insured lending to private credit engaged in the task of rehabilitating obsolete neighborhoods; insurance of long-term, mortgage loans, with small down payment for low-income families. Nothing drastic. But an obvious recognition of the part private business must increasingly play in solving housing problems.

Even the menace of communist infiltration in the land was not passed over. Disenfranchise convicted reds, the President urged. He sidestepped the brewing fight on Capitol Hill over current investigative methods and overlapping of committee activity in that particular.

Pending delivery of the economic message, the President's comment on the need for strong economy may be classed by the more cynical as glittering generality. Again, it had to be; the content of a forthcoming paper could not be condensed into a few short paragraphs, the most significant and promising of which reads:

"At this moment, we are in transition from a wartime to a peacetime economy. I am confident that we can complete this transition without serious interruption in our economic growth. But we shall not leave this vital matter to chance. Economic preparedness is fully as important to the nation as military preparedness."

That cannot be appraised as more than a statement of confidence and the setting up of a goal. But it is, at very least, a recognition of the economic facts of life. And, as in the case of the farm situation, it reaches for a solution; does not attempt to purchase support by reckless promise.

Sustaining the budget message and those which have followed, or will, must always be the State of the Union document.

Statement of anticipated income and outgo, and explanations thereof, build a tome of forbidding size and content. To be sure, the budget will be available to the general public. But it will be read by very few. Budget Director Joseph Dodge would see nothing offensively critical in a statement that no individual will know and understand all of its provisions.

It is the product of thousands of compilers. Sections of it (not the entire book in any instance) will be parceled out among a score of committees, who, in turn, will dole it to fanning-out subcommittees.

Eventually, the ways and means committee, and the appropriations committee, will put the completed parts together in what will be known as a Revenue Act, and either a series of separate appropriations measures or an omnibus bill—probably the former.

The process is something akin to the chore of a circus ringmaster who must get the scattered horses lined up in a well-formed ring so all may be seen at one time in their proper relation to one another. Sometimes the whip must be applied—gentle taps or strong lashes. The simile here may not be as far-fetched as first appears: in Chairman Daniel Reed of the tax-initiating ways and means committee, and in Chairman John Taber of the house appropriations committee, congress has strong-willed men, veterans in the art of whipping things into shape.

Because of the very complexity involved in such a huge task, it is the State of the Union Message which will be read and understood by the larger body of the citizenry who will use it as a scale to weigh promises against performance. People who haven't seen, read, or heard the budget message or the huge book behind it, will outnumber those who have, make the decisions ultimately. Ike hasn't to date, and possibly never will, measure up as a practical politician. But he knows that much about politics.

Subsequent to the delivery of the State of The Union Message, the President sent to Congress (January 11) recommendations on the farm program and on revisions to the Taft-Hartley Act. A brief interpretation of the effectiveness of these recommendations follows:

Taft-Hartley. There was nothing striking in the President's proposals on labor legislation. Some amendments were put forth as a desirability: most controversial, perhaps, was his recommendation that the government supervise secret strike ballots by union members. The proposal on secondary boycotts would certainly have the support of all but professional union leaders who see in

(*Please turn to page* 532)

Realistic Appraisal of the President's Program

(*Continued from page* 530)

the secondary boycott a subsidiary means of enforcing their demands. In toto, the President's message will probably have as many opponents among business as among labor, some of the former desiring the present law to be stiffened and most of the latter desiring, as could be expected, amendments that would cripple the act. While both House and Senate Labor Committees are already hard at work in preparing legislation, it is doubtful that progress in labor-management relations will be facilitated as any bill likely to be sent up to the President will in all probability fail to deal with the central core of the problem.

Farm Program. The President's message on the farm problem dealt (1) with the problem of the immediate situation this year and (2) a longer-range program to start in 1955. Substantially, support of basic commodities at the 90% parity level will be continued through 1954 but will be replaced by "flexible" price support at the expiration of the year. The President has necessarily had to take a long-range view of the problem of mounting surpluses, realizing that only such a program can lay a stronger foundation for agriculture in a period of transition from war to peace-time production. His proposal to segregate $2.5 billion of surpluses is intended to have supporting influence on the current year's price structure. Whether or not the farmers will go along with a shift from high-parity price supports to flexible supports remains to be seen. It is indicated that a greater measure of support for such a policy would be forthcoming from the larger farming interests than small, individual farmers, especially those in the marginal or near-marginal group. The President undoubtedly is correct in his proposal for long-term solution of the surplus problem. From the near-term viewpoint, it is likely that much opposition will be stirred up in Congress which must face the farmers in a political year and at a time of mounting dissatisfaction in the farm belt. In order to stabilize the surplus situation temporarily, at least, under the President's program a reserve fund of $2.5 billion would be set up. The difficulty of making this possible is indicated by the fact that the Commodity Credit Corporation's obligations are already at close to the $6,750,000,000 legal limit.

For Profit & Income

(*Continued from page* 520)

Preferred Stocks

As is so of bonds, interest-rate trends favor preferred stocks. That would be nullified, of course, given a business depression serious enough to cut earnings sharply and bring into question dividend coverage and maintenance. The latter is not in the picture. Certainly dividends of typical medium to good-grade preferred stocks promise to remain more than adequately covered and to be maintained. Fluctuation in these issues in 1954 may well be the narrowest in some years. For income investors requiring more yield than bonds offer, but who do not wish to go all the way to common stocks, selected preferred stocks have merit. Here are some examples, with approxi-

mate current yields: Pacific Lighting $4.50, yield 4.6%; Union Pacific $2, yield 4.2%; General Motors $5, yield 4.2%; U. S. Steel $7, yield 4.9%; Cleveland Electric $4.50, yield 4.2%; and Pacific Gas & Electric $1.50, yield 4.5%.

Liquidating Values

A good many stocks are selling around or below net current assets per share, the market thus putting no value on plants and equipment or other fixed properties. With very few exceptions, issues so priced are speculative and have sub-average earnings prospects. The market is interested in the earning power of assets; but assets per se have no realizable value to the stockholders, unless a company liquidates, pays off its obligations and distributes remaining cash to shareholders. That is not much less rare than hen's teeth. A management will usually prefer a merger, or bankruptcy and reorganization or any other alternative, to liquidation. Why? Because liquidation leaves no jobs for the managers. There is activity in Hudson Motors, around 12 to 13 against 1953 low of $9\frac{1}{8}$, on merger-or-liquidation rumors. The company has a net working capital around $21 a share. We would believe liquidation only if officially announced. Rumor of possible-merger with Nash sounds more plausible. Merger, of course, would not assure adequate profits, if any, for the combination. The main problem would still be what it is now: namely, shrinkage of the car market available to makers other than General Motors and Ford.

Possibility

Montgomery Ward has for some years held to an over-conservative dividend policy, while piling up uncommonly large cash holdings. With current-year earnings around $6 a share, or possibly a little more, against $7.41 in the prior year, the Avery management has amazed the financial community by declaring a $1.50 year-end extra, against $1 a year ago, making total payments of $3.50 for the year against $3 in the 1952 fiscal year. Although still only some 55% of earnings, this is the highest payout in a number of years. Hence, it might represent a policy change of some significance. The following longer-

(*Please turn to page* 534)

For Profit & Income

(*Continued from page* 533)

term possibilities in this situation have been apparent for some time: (1) that surplus cash might be used for long-deferred expansion; (2) that it might be considered as a contingency bulwark justifying paying out the greater part of earnings in dividends; or (3) that some compromise between expansion and dividend liberalization would be the choice. The surprise is that a material start toward more generous dividends has been elected by the present management. It makes the stock, up about 2 points to 57 on the news, considerably more attractive on a yield basis of about 6.1%. Any of the three alternative policies cited could result in market appreciation over a period of time. The biggest potential for rise in the stock would be in a policy of paying out the bulk of earnings, and most shareholders would undoubtedly prefer that. At the present level, which is well under that when we commented earlier on this company, there are probably above-average longer-range potentials in the stock. But since the policy is still not too clear-cut, it is impossible to figure whether they are moderate or dynamic.

Answers to Inquiries

(*Continued from page* 514)

North American Aviation

"With the defense expenditures for airplanes expected to continue very substantial over at least the next few years I would be interested in receiving recent amount of unfilled orders of North American Aviation, also earnings and dividends and prospects over coming months.

M. I., Ashton, Maryland

North American Aviation, Inc. showed a net income of $12,773,361 after taxes, equal to $3.72 per share, for the fiscal year ended September 30, 1953. This compares to net income of $7,820,880 after taxes, equal to $2.28 per share for the previous fiscal year.

Sales and income for the 1953 fiscal year amounted to $636,537,658 compared to sales and income of $317,198,022 for the previous fiscal year. Taxes took an increased amount of income in the provision of $27,300,000 for federal income and excess profit taxes for the 1953 year against the $12,500,000 provided in the previous year.

Federal taxes on income increased to $7.95 a share for the last fiscal year over the $3.64 a share in the previous year. The provision for federal taxes on income included the equivalent of $1.98 per share for excess profit tax.

Unfilled orders totalled $958 million as of September 30, 1953, compared to $1,014,000,000 at the same time the previous year. The September 30, 1953 backlog figure does not include approximately $212 million of orders in process of negotiation.

While the first quarter of the current fiscal year will be affected by a strike, which has since been settled, it is not anticipated by the company that the strike will materially reduce the company's sales and earnings for the entire 1954 fiscal year.

During the period between July 1 and September 30, fourth quarter of North American's fiscal year, total sales and other items were $175,825,478. Cost of sales and other expenses, including year-end adjustments, amounted to $159,864,117, giving a net income for the quarter of $4,783,361 after provision of $11,178,000 for federal income and excess profit taxes.

Gross capital expenditures for

the 1953 fiscal year amounted to $5,912,441 for additional facilities and equipment required to keep pace with rapid developments and advances in the aeronautical field. Nearing completion is a Thermodynamics Laboratory at the Los Angeles plant, and in the planning stage is a $4 million wind tunnel capable of speeds up to three and a half times the speed of sound.

Approximately 95% of the 1953 sales were to the U. S. Air Force, U. S. Navy and other agencies of the Government. Besides continued production of models in the Korea-famed Air Force F-86 sabre jet series, North American also is producing for the Navy FJ-2 Fury jet fighters, AJ-2 bombers and B-28-B trainers. At the end of the year, the company had also started production of the F-100 Super-Sabre, the country's first supersonic operational fighter.

Continued advances and developments in the field of long range guided missiles, as well as rocket propulsion and electro-mechanical progress is opening new market possibilities to the company. North American is continuing its developing work in the nuclear reactor field under contract with the Atomic Energy Commission. During the year designs were completed for various types of reactors for the production of electric power. On January 11 the company layed off about 800 production and maintenance employees in line with the Government's announced policy of schedule stretch-outs. The company announced employment now totals about 17,200.

Dividends in 1953 totalled 75 cents per share and a $1.00 disbursement was made on January 8, 1954.

Cornell Dubilier Corporation

"Please furnish sales volume of Cornell-Dubilier Corporation and give the percentage of business that represents military items. Also earnings and dividends per share."

H. P., Watertown, Wisconsin

Cornell-Dubilier Electric Corporation registered the largest sales volume in its history in the fiscal year ended September 30, 1953. Consolidated net sales of the company and its subsidiaries totalled $43,630,816, an increase of 23% over the previous year's volume of $35,496,041. Approximately three-fourths of the latest year's sales consisted of the firm's regular line of commercial products with the balance representing shipments of special military items.

Consolidated net income for the year ended September 30, 1953 amounted to $1,666,696, equal after preferred dividends, to $3.12 per share on 512,390 shares of common stock then outstanding. For the previous fiscal year, consolidated net earnings totalled $1,539,831, or $2.86 per share, based on the same number of shares. Provision for Federal income and excess profit taxes was $3,749,000 in the 1953 fiscal period as against $3,437,000 in the preceding year.

The use of electronics in many diversified fields has been growing to such an extent that the falling-off in the manufacture of electrical appliances and television receivers did not affect the company's sales for the first two months of the current fiscal year. Such sales are running at the rate of over $45 million a year.

Additional facilities for capacitor production in the company's newest and most modern plant at Sanford, North Carolina, to supplement operations at other plants located throughout the country has equipped the corporation to handle not only the existing high level of business but such increases as the introduction of color television may bring. Color television will use substantially more capacitors—the company's principal product—as are presently used in black and white receivers. Capacitors are used in all types of electrical appliances and equipment for home and industry.

Dividends, including extras, totaled $1.32 a share in 1953, against $1.15 in 1952.

As I See It!

(*Continued from page* 473)

Russian Communist party. The Trieste fiasco, furthermore, has served to weaken the still infirm ties of Yugoslavia with the West. The Russians, playing their customary game, have not hesitated to fish in these troubled waters. In any case, many close observers in Washington believe that our alliance with Tito is much weaker than appears on the surface.

If these were temporary conditions, the situation would not have such serious implications as far as American world policies are concerned. Unfortunately, the increasing difficulties spring from deep-seated maladjustment in the three countries. Both France and Italy have stubbornly persisted in internal economic policies which have been enormously weakening, and which have created problems of such massive proportions that fears are entertained lest revolution be the ultimate outcome. Yugoslavia, as we have said, has been by no means secured to our cause.

Because of this potential weakness in our defense structure, our Secretary of State has recently strongly intimated that a review of our global strategy would be in order. There is no doubt that we must prepare alternate policies if the old ones prove ineffective. Under the conditions outlined above, we cannot afford to be guided by hope alone, we must grimly assess the realities and not shrink from the consequences.

Market Weight New Earnings Prospects

Continued from page 475)

than with the trends of production, earnings or commodity prices.

However, none of this implies a tangible or psychological basis for sustained general advance in stock prices. About the best that we can conceive of on the present evidence is maintenance of trading-range limits for the daily industrial and rail averages, and for our broad weekly index of 300 stocks, about in line with last year's. No change in our conservatively selective policy is justified. Continue to hold adequate reserves for later buying opportunities.—Monday, January 18.

The Trend of Events

(*Continued from page* 471)

shown, in his invitation to all nations to pool fissionable material for peace-time uses, that the entire world is swiftly being drawn into the orbit of the most revolutionary development since the discovery of electric power. In other countries, as well as the United States, preparations are being made to harness the atom to industry. In this country, many of our foremost and most progressive business organizations are developing far-reaching plans to take a prominent part in these activities. In the not distant future, the Atomic Energy Act will be amended to permit private industry to enjoy a much greater share in atomic energy projects. Thus, the foundations are rapidly being laid for the unfolding of a new era that will disclose unlimited opportunities for all nations and peoples.

A LESSON IN SEMANTICS . . . Whatever else the American public may be gaining from the rash of yearly economic forecasts—and by this time they must be hardened to it—they are certainly acquiring an education in semantics. Quite familiar through long habit with such words as "depression" and "recession", "adjustment" and "readjustment" they are now becoming acquainted with such picturesque terms as "rolling adjustment", "turn-down", "let-down", "slide", "skid", and an assortment of others, all calculated to express the "business blues". If this is not enough, commentators, expert and otherwise, are prepared to add to the above expressions such descriptive adjectives as "severe", "moderate", "gentle", with variations of the same.

In good-natured tolerance of this annual performance, the average American citizen offers no objection to the flowering of nouns and adjectives, appreciating quite well that economists must live too, though many an economist would find life simpler if he could only change his job for something less wearing on the nervous system. Be this as it may, once the flurry of annual forecasting is over—for which we can join our heartfelt thanks together with those of our economic brethren—we can all settle down

to the prosaic but perhaps more rewarding task of observing the amazing colorful American economic panorama as it unfolds day-by-day and week-by-week. This, more than cold facts and figures, often reveals the real stuff out of which our American life is made.

TRUSTEES AND COMMON STOCKS . . . A recent tabulation highlights the growth of institutional investment in common stocks. More than three thousand banks and trust companies in the United States are now administering investments under trustee arrangements, and total investments so administered are said to approximate $70 billion. Changes in the structure of such a huge portfolio of investments obviously command serious attention owing to their influence on the securities markets.

The striking growth of common stock holdings in trustee accounts is indicated by the fact that they represent 45% of the total, compared with 10-15% several decades ago. Simultaneously, government bond holdings have shrunk to about 25% of total investments compared with more than double this amount in former years. The rapidity with which the composition of trust funds is changing in favor of equities is indicated by the fact that as recent as five years ago common stock holdings constituted only 30% of total trust portfolios.

Analysis of specific common stock holdings held by a cross-section of the trusts would seem to indicate a striking uniformity in the basis of selection. Though many hundreds of individual corporations are represented in such holdings, emphasis is placed mainly on the dominant business enterprises of America and, consequently, the bulk of common stock investment is lodged among such primary companies. Added to investments by financial organizations such as investment trusts and "mutual funds", the total of institutional investments in major American corporations, now runs to very large figures, indeed. Since these stocks are normally held on a permanent or semi-permanent basis, the effect is to withdraw from the market substantial quantities of equities. The scarcity value created by such

(*Please turn to page* 538)

FIRST VICE-PRESIDENT

By JOAN TRANSUE

The house at Montauk was uncompromisingly ugly. Even the interior decorators had made little dent on the vast, dark rooms, achieving now only a desperate touch of old movie-palace splendor. Nevertheless it was the root of all Norman Frume's happiness—his one tie with the lost love and grandeur of his childhood. A vice-president of the Kittatinny Life Insurance Company—a position for which he had struggled with relentless dedication — Norman Frume found only a melancholy pleasure in the lonely house. But, like his success, it supported him. It was, in a way, a refuge.

It was to Montauk that Norman invited his boss, Wilson Gladstone, for a week's vacation. The house party was planned to the final touch. But at some one point Norman lost touch with Montauk, with his family and his guests, with his prestige and power. His self-control dropped away, leaving him vulnerable to blunders and increasing desperation. Baffled and enraged by the gaiety of the party, Norman grew grimmer. He had been pursuing his success so doggedly that he had become quite blind to the fact that the trail was his own and that he was traveling a circle. He realized only that the trail was spiraling closer and closer to the brink of utter disaster.

Doubleday $3.00

LORD VANITY

By SAMUEL SHELLABARGER

In Lord Vanity as in his previous novels, Dr. Shellabarger combines with consummate skill the art of storytelling with a thorough knowledge of the period of which he writes. Here the reader will find a vivid picture of the Age of Enlightenment at the turning point where the last late flowering of the seventeeth century coexisted for a time with the beginnings of the age of the Rights of Man. And the picture is so beautifully rendered that the story interest never for a moment lags and the characters never fail to fascinate.

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Crown Publishers $10.00

The Trend of Events

(*Continued from page 537*)

concentration of investment is one of the principal factors in the sustained high levels of prime common stocks. Whether or not trusteed accounts will continue to absorb high-quality common stocks at prevailing substantial premiums is a problem that commands the interest of investment specialists. It may very well be that the attention of investment managers will be turned from the highest-grade stocks to those, which, while not of comparable quality, nevertheless conform with the general requirements for stocks of trustee calibre. This would greatly widen the area of potential investment; and bring to the fore a new group of investment stocks not yet exploited on the scale which has hitherto been true of leading issues.

FRIEND WORTH KEEPING . . . The Canadian-U. S. trade picture, on the whole, is a pleasant one, and it does seem as if this happy relationship were worth some sacrifices to keep. Yet friction is increasing.

The integration, in the Northwest, of Canadian and U. S. dairy supplies, for example, has meant lost business to Canada, and yet the expected benefit to dairy producers and processors this side of the border is hard to find. Continued agitation against petroleum imports is another effort to break down an integration useful to both countries. Crude oil produced in Alberta, far from any Canadian consumers in adequate numbers to absorb it, is threatened with being barred from the Pacific Coast, where in some instances it is the closest and most economical source. At the same time, many times the Alberta fields' amount of U.S.-produced petroleum products flows into Ontario and Quebec. Further, the farm price support program is cutting into Canadian export earnings.

These irritations in themselves are not too great. Others could be cited. The important thing is that we should weigh Canadian amity as an asset for the entire nation against the benefits these restrictions give, or seem to give, to small groups. We don't have too many friends abroad who don't have their hands out all the time. Canada surely deserves some sort of preferential treatment.

Correction

In the Jan. 9 issue the figure for liquidity for Caterpillar Tractor on page 443 was given erroneously as 1%. This should have read 9.1%. The degree of liquidity which The Magazine of Wall Street presents statistically is confined solely to the ratio of cash and government bonds, or the equivalent, to total current assets. Liquid assets which are already segregated for the purpose of liquidating specific debts are not included in our ratios.

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The Magazine of Wall Street's

COMMON STOCK INDEX

1954 Grouping of the 300 Component Issues

H—Component of the 100 HIGH PRICED STOCK Group
L —Component of the 100 LOW PRICED STOCK Group

4—AGRICULTURAL IMPLEMENTS
Deere
Int. Harvester
L —Minn.-Moline
L —Oliver

10—AIRCRAFT
H—Boeing
Cons. Vultee
L —Curtiss-Wright
H—Douglas
Grumman
Lockheed
L —Martin
Nor. Am. Aviation
Republic Aviation
United Aircraft

7—AIRLINES
L —Am. Air Lines
L —Braniff
Eastern Air Lines
L —Northwest Air Lines
L —Pan American
L —Trans-World
United Airlines

7—AMUSEMENT
L —Am. Broadc. Par.
L —Loew's
Paramount Pictures
L —RKO Pict.
L —Repub'ic Pictures
20th Century Fox
L —Warner Bros.

10—AUTOMOBILE ACCESSORIES
H—Bendix Aviation
H—Borg Warner
L —Budd Co.
H—Elec. Auto-Lite
Elec. Storage Batt.
L —Hayes Mfg.
L —Houd.-Hershey
Murray
Rockwell Spring
Stewart Warner

9—AUTOMOBILES
H—Chrysler
H—General Motors
L —Hudson
L —Mack
Nash
L —Packard
Reo
Studebaker
White

3—BAKING
Amer. Bakeries
Continental
L —General

3—BUSINESS MACHINES
L —Burroughs
H—Nat. Cash
L —Rem. Rand

2—BUS LINES
L —Greyhound
L —Omnibus

6—CHEMICALS
Air Reduction
H—Allied Chem.
H—Amer. Cyanamid
Comm. Solvents
H—Du Pont
H—Union Carbide

3—COAL MINING
L —Lehigh C. & N.
L —Lehigh Valley Coal
L —Phila. & Rdg. C. & I.

4—COMMUNICATION
L —Am. Cable & Radio
H—Amer. Tel. & Te'.
L —Int. Tel. & Tel.
H—Western Union

9—CONSTRUCTION
L —Am. Radiator
L —Certain-teed
Crane
Flintkote
H—Johns-Manville
Lone Star Cement
Nat. Gypsum
H—Otis Elevator
L —Walworth

7—CONTAINER
H—Am. Can
H—Container Corp.
H—Cont. Can
L —Crown Cork
L —Gair
L —Nat. Can
H—Owens-Ill. Glass

9—COPPER & BRASS
Anaconda
Bridgeport Brass
L —Calumet & Hecla
L —Cons. Copper
L —Gen. Cable
Inspiration Copper
H—Kennecott
Miami
Phe'ps Dodge

2—DAIRY PRODUCTS
H—Borden
H—Nat. Dairy

5—DEPARTMENT STORES
H—Allied Stores
Assoc. Dry Goods
L —Gimbel Bros.
Macy
Marshall Field

5—DRUGS & TOILET ARTICLES
H—Abbott Labs.
H—Am. Home Products
H—Colgate
L —Rexall Drug
L —Zonite

2—FINANCE COMPANIES
C. I. T.
Commercial Credit

7—FOOD BRANDS
Best Foods
H—Corn Products
H—Gen. Foods
L —Libby McNeill
Nat. Biscuit
Stand. Brands
L —Stokley

2—FOOD STORES
H—Kroger
H—Safeway

3—FURNISHINGS
Congoleum-Nairn
L —Servel
Simmons

4—GOLD MINING
L —Alaska Juneau
L —Benguet
Dome Mines
Homestake

4—INVESTMENT TRUSTS
Adams Express
Atlas Corp.
H—Lehman Corp.
L —Tri-Continental

3—LIQUOR
Disti'lers-Seagrams
Nat. Distillers
Schenley

11—MACHINERY
H—Allis-Chalmers
Am. Mach. & Fndry.
Bucyrus-Erie
H—Caterpillar
L —Cont. Motors
Foster-Wheeler
L —Gar Wood
H—Gen. Electric
H—Timken Roller
H—Westinghouse Elec.
Worthington Pump

3—MAIL ORDER
H—Montgomery Ward
H—Sears Roebuck
L —Spiegel

3—MEAT PACKING
L —Armour
H—Swift & Co.
L —Wilson

10—METALS, MISCELLANEOUS
H—Aluminum Co. America
Am. Smelting
L —Am. Zinc
L —Cal'ahan Zinc
Climax Molybdenum
H—Int. Nickel
L —Pacific Tin
St. Jos. Lead
L —Sunshine Mining
L —United Park City

4—PAPER
H—Crown Zellerbach
H—Int. Paper
St. Regis
H—Union Bag

24—PETROLEUM
Atlantic Refining
H—Cities Service
H—Cont. Oil
H—Gulf Oil
H—Houston Oil
H—Mid-Cont. Pet.
H—Ohio Oil
L —Panhandle P. & R.
H—Phillips Pet.
Plymou'h Oil
H—Pure Oil
H—Richfie'd
H—Shell Oil
Sinclair
Socony
H—Stand. Oil Calif.
H—Stand. Oil Ind.
H—Stand. Oil N. J.
Stand. Oil Ohio
Sunray
H—Texas Co.
H—Texas Pac. Land Trust
Tide Water Assoc.
H—Union Oil

22—PUBLIC UTILITIES
H—Am. Gas & Elec.
Cent. & S. W.
H—Cleveland Elec.
L —Columbia Gas
Commonwealth Ed.
H—Cons. Edison
Consumers Pr.
Detroit Ed.
L —Laclede Gas
L —L. I. Lighting
Midd'e So. Utils.
L —New Eng. El. Sys.
Niag. Mohawk Pr.
L —Northern States Pr.
Pac. Gas & Elec.
Penn. Pr. & Lt.
L —Potomac Elec. Pr.
Pub. Ser. E. & G.
L —South Carolina E. & G.
Southern Calif. Ed.
L —Southern Co.

8—RADIO & TV
Admiral
L —Emerson Radio
L —Magnavox
Motorola
Philco
R. C. A.
L —Sparks-Withington
H—Zenith

8—RAILROAD EQUIPMENT
Am. Car & Foundry
L —Am. Locomotive
Am. Steel Foundries
L —Baldwin Lima
L —Pressed Steel Car
H—Pullman
L —Symington-Gould
Westinghouse Air Brake

20—RAILROADS
H—Atchinson
H—Atlantic Coast
B. & O.
H—C. & O.
L —Chi. Milw. St. P. & P.
H—D. & H.
L —D. L. & W.
Erie
H—Gt. Noth. Pfd.
H—Ill. Centra'
H—Kansas City So.
L —Lehigh Valley
N. Y. Central
H—North. Pac.
Penn. R. R.
St. L.-San Fran.
H—Seaboard Air Line
H—So. Pac.
H—So. Ry.
H—Union Pacific

3—REALTY
L —Equitable Office Bldg.
L —Gen. Realty
L —Sheraton

3—SHIPBUILDING
H—General Dynamics
N. Y. Shipbuilding
Newport News

3—SOFT DRINKS
L —Canada Dry
H—Coca-Cola
L —Pepsi-Cola

11—STEEL & IRON
Alleg. Ludlum
H—Armco
H—Beth. Steel
L —Colo. Fuel & Iron
L —Gt. Nor. Ore
L —Inter'ake
Jones & Laughlin
H—Nat. Steel
H—Republic Steel
H—U. S. Steel
H—Youngstown Sheet

3—SUGAR
Am. Crystal
L —Cuban-American
West Indies

2—SULPHUR
H—Freeport
H—Texas Gulf

5—TEXTILES
H—Am. Viscose
L —Am. Woolen
L —Burlington Mills
Celanese
L —United M. & M.

3—TIRES & RUBBER
H—Goodrich
H—Goodyear
U. S. Rubber

5—TOBACCO
H—Am. Tobacco
H—Liggett & Myers
Lorillard
H—Phillip Morris
H—Reynolds Tob. "B"

2—VARIETY STORES
Kresge (S. S.)
H—Woolworth

17—UNCLASSIFIED
L —Am. Bosch
L —Avco
H—Carrier Corp.
L —Curtis Pub.
H—Eastman Kodak
L —Graham Paige
L —Marine Mid'and
L —Martin Parry
L —Newport Inds.
L —Pittsburgh Screw
H—Procter & Gamble
L —Shattuck (F. G.)
L —So. Am. Gold & P.
Stone & Webster
Transamerica
L —United Cigar-Whelan
H—United Fruit

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